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Consulting matters: Observations on the 2021-31 consultation documents



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Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

Regardless of what the future might hold for local government, councils need to ensure that they continue to deliver the services that their communities rely on every day. Many of these services rely on assets that are expensive to build and maintain and need to operate effectively for many years. Careful planning is therefore needed to ensure that services are maintained at the standards that communities expect and at a reasonable cost.

A long-term plan sets out what a council intends to deliver to its community and how the council intends to pay for it. Effective consultation with communities is therefore critical to making sure that councils develop the right plan for their community. Councils need to provide their communities with reliable and clear information about the matters proposed for inclusion in the long-term plan and the costs of these so that their community can engage with and provide feedback on this.

As Auditor-General, I am the auditor of councils' long-term plan consultation documents. This report provides my Office's observations on the third round of long-term plan consultation documents, which were first required for councils' 2015-25 long-term plans.

My overriding observation is that, as a whole, councils have realistically confronted the challenges they face and, for the most part, produced clear consultation documents. This is no small achievement at the best of times. In the middle of a pandemic and in a sector focused on significant reforms, this is an even more significant achievement.

The economic uncertainty from Covid-19 meant that many councils had to reset their existing work programmes. Councils also had to reconsider, in relatively short time frames, what they planned to include in their long-term plans and consult their communities on. The number of reforms and reviews currently affecting the local government sector are also creating considerable uncertainty about the direction of local government. Although longer-term planning in these circumstances is more challenging, it is, in many ways, even more essential.

Despite this challenging environment, councils are well placed to engage directly with their communities. Most councils have used their consultation documents to have candid conversations with their communities about the issues they face and how they plan to respond. These conversations also mean being clear on the investment required to address those challenges. I was pleased to see councils presenting financial strategies that matched the real challenges they were facing. If significant investment is required to maintain or improve service delivery, it is

important that communities see this and understand how it will affect rates and/or debt.

We recognise that councils are improving their conversations with their communities on climate change matters. For many communities, this is a complicated area with many potential consequences. It is good to see councils turning their minds to these issues, even if all the implications are not yet clear.

Unlike previous rounds of long-term plan consultation documents, our auditors included more emphasis of matter paragraphs in their audit reports. An emphasis of matter paragraph does not mean that the auditor has found anything wrong. However, there were important matters to draw the readers' attention to. In most cases, the emphasis of matter paragraphs reflected the significant uncertainties faced by councils in preparing their long-term plans.

Auditors emphasised the uncertainty of:

- the impact of the Government's proposed structural reforms of three waters services;
- whether some councils can deliver their proposed capital expenditure programmes, given the scale of the programmes proposed and the various challenges in delivering them;
- the extent of some councils' condition and performance information used to inform their three waters asset renewal forecasts; and
- funding assumptions used by some councils.

We also issued an adverse audit opinion and 10 qualified audit opinions on long-term plan consultation documents. It is the first time my Office has issued qualifications on consultation documents since they were introduced in 2015. In most cases, the qualification was limited to a disagreement or a limitation in scope about an aspect of a council's consultation document or the underlying information on which it was based. However, for the council that received an adverse audit opinion this meant, in our view, the council did not present a fit-for-purpose consultation document. This is because the document did not contain a credible plan to address the challenges that the council faced. In my view, this defeats the purpose of the consultation document and limits the ability of that community to effectively engage with the council's long-term plan.

There are some excellent examples of councils using innovative approaches to engage with their communities on matters in their consultation documents, such as dedicated webpages on each matter or using social media. In many of those cases, the consultation document has not been at the centre of this engagement. It might be timely for the Department of Internal Affairs, working with the local

government sector, to consider how engagement on the content of a long-term plan happens and the role of the consultation document in that process.

Although consultation documents are intended for public consultation on significant matters facing the council or the community, councils also need to make several mandatory disclosures. This can result in a long and information-heavy document, which could be daunting for people to engage with. Balancing effective consultation with effective legislative compliance is a challenge for councils.

I acknowledge the dedication, time, and effort that elected members and council officers put in preparing the 2021-31 long-term plan consultation documents, particularly during the difficult circumstances of a pandemic. I also acknowledge my auditors and wider office for their support of our audits of the consultation documents. This would have been a challenging year for both councils and auditors even without a long-term planning process. Carrying out robust long-term planning and remaining accountable to your communities in times of crisis is something for councils to celebrate.

Nāku noa, nā

A handwritten signature in black ink, appearing to read 'John Ryan', with a stylized flourish at the end.

John Ryan
Controller and Auditor-General

1 December 2021

Our recommendation

We recommend that the Department of Internal Affairs and the local government sector review the consultation requirements for long-term plans to ensure that the engagement process and content requirements of a consultation document remain fit for purpose.

Introduction

- 1.1 In this Part, we outline:
- why councils prepare consultation documents;
 - our audit work on consultation documents;
 - the challenging circumstances councils were working in as they prepared their 2021-31 consultation documents; and
 - the structure of our report.

Why do councils prepare consultation documents?

- 1.2 In August 2014, the Local Government Act 2002 (the Act) was amended to require councils to prepare consultation documents. The purpose of a consultation document is to provide an effective basis for public participation in local authority decision-making processes about the content of a council's long-term plan.

- 1.3 Section 93B of the Act requires a consultation document to achieve this by:
- (a) providing a fair representation of the matters that are proposed for inclusion in the long-term plan, and presenting these in a way that:*
 - (i) explains the overall objectives of the proposals, and how rates, debt, and levels of service might be affected; and*
 - (ii) can be readily understood by interested or affected people; and*
 - (b) identifying and explaining to the people of the district or region, significant and other important issues and choices facing the local authority and district or region, and the consequences of those choices; and*
 - (c) informing discussions between the local authority and its communities about the matters in paragraphs (a) and (b).*

- 1.4 Councils are responsible for preparing consultation documents that give effect to the purpose statement outlined in the Act. Although councils are free to decide what to put in their consultation documents to meet the Act's requirements, there are some mandatory requirements.¹

- 1.5 The overall legislative requirements are clear. A consultation document should provide members of the public with:
- an explanation of the important issues a council is expected to face during the next 10 years;
 - a council's options for addressing the issues; and
 - how these options might affect the financial position of a council and members of the public.

¹ This is set out in section 93C of the Act.

- 1.6 Deciding what to include in a consultation document can be challenging. What might be an important issue for some members of the community might not be for others. Elected members need to consider the issues carefully and be satisfied that what is included are the important issues facing the council and the community. They also need to be prepared to engage with members of the community on matters that are not included in the consultation document, but which the community might consider important.
- 1.7 A council also needs to ensure that it presents the contents of its consultation document in a way that people can engage with. This will allow them to be informed and participate in local authority decision-making. An effective consultation document will:
- be concise and simply presented;
 - present only the most important issues;
 - display information in a way that the public can readily understand it; and
 - enable people to make informed comments and submissions if they want to.
- 1.8 The consultation document is not intended to summarise the full content of the long-term plan. However, it must set out the main issues that a council proposes to include in its long-term plan. A consultation document must not include a draft long-term plan or a full draft of any policy or strategy.
- 1.9 There is supporting information underlying a consultation document, which a council must prepare and adopt before it can adopt the consultation document. This underlying information will include the council's draft financial strategy and draft infrastructure strategy and the proposed forecast financial statements and service performance information. The consultation document must state where members of the public can access this underlying information. By making this information available before the consultation document is adopted, a council effectively provides the community with all the significant information that was previously included in the draft long-term plan.

Our audit work on consultation documents

- 1.10 The Act requires each consultation document to contain an audit report from the Auditor-General that provides an opinion on:
- whether the consultation document gives effect to its purpose (as outlined in paragraph 1.3); and
 - the quality of the information and assumptions underlying the information provided in the consultation document.

- 1.11 Councils produced consultation documents for the third time in 2021, having first been required as part of the process for the 2015-25 long-term plans. We audited each council's consultation document to determine whether it provided an effective basis for consultation with the community (with a particular emphasis on whether the consultation document fairly represented the matters a council proposed to include in its long-term plan). We determined whether the consultation document identified and explained the main issues and choices facing a council and the consequences of those choices.
- 1.12 We also audited councils' underlying information to determine its reasonableness. This included considering how reliable the underlying asset information used by councils was and how well councils are reflecting this in the financial forecasts that underpinned their consultation documents.
- 1.13 Our role is to assess whether the consultation document is fit for purpose and covers what it needs to. We are not required to give a view on whether a council has met all the requirements of the Act from a legal perspective.
- 1.14 However, there is an element of legislative compliance to our role, including considering the mandatory content requirements for consultation documents. We consider whether the information that must be included has been. We do not check that every detail complies with the Act, regulations, or prescribed forms.
- 1.15 Our role does not allow us to comment on the merits of any policy content that councils have included in their consultation documents or in the underlying information. Policy decisions are for elected members to make. This is important because it helps maintain our independence.
- 1.16 Instead, our audit involves checking that the policies proposed by a council are appropriately reflected in forecasts they have prepared. In effect, we check whether councils' forecasts are consistent with what they say they will do.

Councils prepared consultation documents in challenging circumstances

- 1.17 Consultation documents and the underlying information set out what councils expect will happen in the future. There are always assumptions that councils need to make when planning. Our audits of the consultation documents and the underlying information focus more on the assumptions and the areas of council forecasts that are more uncertain.
- 1.18 At the time of preparing the 2021-31 long-term plans, there were many uncertainties facing the local government sector. We were told that these uncertainties made it challenging for councils to prepare and consult on the

2021-31 long-term plans. It also made it challenging for us to audit the consultation documents and the underlying information.

- 1.19 Local government is facing increased uncertainty. Proposed reforms and a ministerial review of the future for local government might change what it does and how it operates. These include the proposal to reform three waters² service delivery, how to respond to climate change, resource management reform, regulatory reform (such as to improve the quality of drinking water), and the review into the future for local government.
- 1.20 At the time of preparing the consultation documents, the most significant uncertainty was the three waters service delivery reforms. Although the Government had publicly announced its proposal to reform three waters service delivery, the reform proposal had not yet been fully developed. Additionally, because the Government had made it clear that assets would still be owned by the community if this reform progressed, the local government sector considered that the community should be able to understand and comment on the important issues related to three waters services until the reforms were certain.
- 1.21 Taking this into account, all councils that deliver three waters services continued forecasting those services in their underlying information as if they would continue to own and manage them for the period covered by their long-term plan. We supported this approach. In our view, there was no other reasonable and supportable assumption to use in respect of delivering three waters services. We did expect councils to provide appropriate disclosure in their consultation documents about the three waters reforms. Our response to the approach councils took is set out in Part 5.
- 1.22 Similar principles applied in respect of the resource management reform. Although the Government had received a report from an independent review that it had commissioned, it had yet to consider its response and develop legislation to implement its decisions. Therefore, for the purposes of the consultation document and underlying information, planning on the basis of the status quo was considered a reasonable assumption.
- 1.23 Covid-19 also increased uncertainty. The country went into the first alert level four lockdown³ at about the same time that councils were preparing their 2020/21 annual plans. To respond to the economic downturn caused by the lockdowns, many councils provided a form of rates relief to their community by minimising

2 Three waters services relate to water supply, sewerage and the treatment and disposal of sewage, and stormwater drainage activities.

3 In response to Covid-19, the Government put in place a four-level alert system. Each alert level introduces more measures to protect people from contracting or spreading Covid-19. On 25 March 2020, all of New Zealand moved into alert level four, which required many council workers to isolate and work from home.

the 2020/21 rates increase. Where they could, some councils also brought forward programmes of work, again with the view of supporting the local economy.

1.24 The policy decisions made by councils as they prepared their 2020/21 annual plans also affected preparation of the 2021-31 long-term plans. We observed that some councils could not continue to minimise their rates requirements without impacting the levels of service they provide.

1.25 Councils also needed to consider the impacts of Covid-19 on their forecasts, including on population growth assumptions (for example, migration forecasts were expected to change) and behavioural trends (for example, how people live and work, including how they use community facilities, what form of transport they use, and how often). As a result, Auckland Council called its 2021-31 long-term plan “our recovery budget”. We discuss how councils addressed Covid-19 in their consultation documents in Part 2.

1.26 We expected councils to be considering how a changing climate would affect their operations, service levels, and planned responses. We plan to report separately on our assessment on the extent to which councils are taking action to adapt to, and mitigate the effects of, climate change.

1.27 Despite these uncertainties and the challenges that councils have faced, councils, in our view, have responded well and continued to produce informative and engaging consultation documents.

1.28 We continue to reinforce the importance of long-term planning and engaging with communities on the important choices and implications that councils and communities face. This is important to achieving accountability and transparency.

Structure of this report

1.29 Part 2 summarises our observations on the 2021-31 consultation documents.

1.30 Part 3 discusses the number and types of issues councils consulted on.

1.31 Part 4 examines how councils discussed climate change in the 2021-31 consultation documents.

1.32 Part 5 outlines the audit reports we issued on the 2021-31 consultation documents.

2

Our observations on the 2021-31 consultation documents

- 2.1 In this Part, we:
- outline our views on what makes a consultation document effective;
 - summarise what we saw in the 2021-31 consultation documents;
 - detail some of the different approaches councils used to engage with their communities; and
 - suggest it is an appropriate time to review the legislation about consultation documents.

Our views on effective consultation documents

- 2.2 When considering councils' 2018-28 consultation documents,⁴ we noted that effective consultation documents:
- highlighted issues and options and how these would affect communities, and included well-designed questions on the options facing the public;
 - provided the key elements of the council's financial and infrastructure strategies as context for long-term plans;
 - balanced contextual information to allow a community to participate in the consultation process with the issues being consulted on;
 - were written in plain English and included tables, diagrams, and infographics in an easy-to-follow structure; and
 - provided tips on how to read the information and clear indications of where to find the relevant underlying information.
- 2.3 Our views on what makes an effective consultation document have not changed after our review of the 2021-31 consultation documents.

What we saw in the 2021-31 consultation documents

- 2.4 The 2021-31 consultation documents varied significantly in their layout, length, and readability. This is to be expected, given councils have discretion over how to develop consultation documents that will resonate with their communities. The more effective consultation documents were clear about the challenges the councils were facing and written in a way that was easy to follow and in plain English.
- 2.5 We expand on these qualities below.

Councils were increasingly clear with their communities about the challenges they were facing

- 2.6 As we noted in Part 1, councils are working in circumstances that are increasingly uncertain. At the same time, councils are facing significant challenges. These include:
- responding to historical underinvestment in infrastructure;
 - managing changing demographics;
 - responding to increasing expectations from communities for improved services (whether these are smoother roads, improved recycling, or increased sustainability); and
 - changing regulatory requirements either implemented (for example, new freshwater management standards) or to come (such as the new drinking water standards).
- 2.7 In our view, councils were clear in their 2021-31 consultation documents about the challenges they and their communities were facing and what approaches the council proposed to address these.⁵ We consider this a significant improvement from previous consultation documents.
- 2.8 Importantly, most councils used plain English to make it easier for their communities to understand the challenges and the proposed response. Given the complexity of the challenges, councils should be commended for this.
- 2.9 One of the notable examples we saw was Central Hawke’s Bay District Council. The description of its most significant challenge – the historical underinvestment in its essential infrastructure – was clear and to the point. The Council also clearly set out its response, which was to significantly increase its investment in nearly every aspect of its services.
- 2.10 Central Hawke’s Bay District Council also used graphics throughout its 2021-31 consultation document. Figure 1 shows how the Council described each of its “big challenges” using graphics.

⁵ We note we issued an adverse audit opinion on Palmerston North City Council’s consultation document. We comment on this further in paragraphs 5.15 to 5.20.

Figure 1
How Central Hawke’s Bay District Council used design to show its “big challenges” in its 2021-31 consultation document



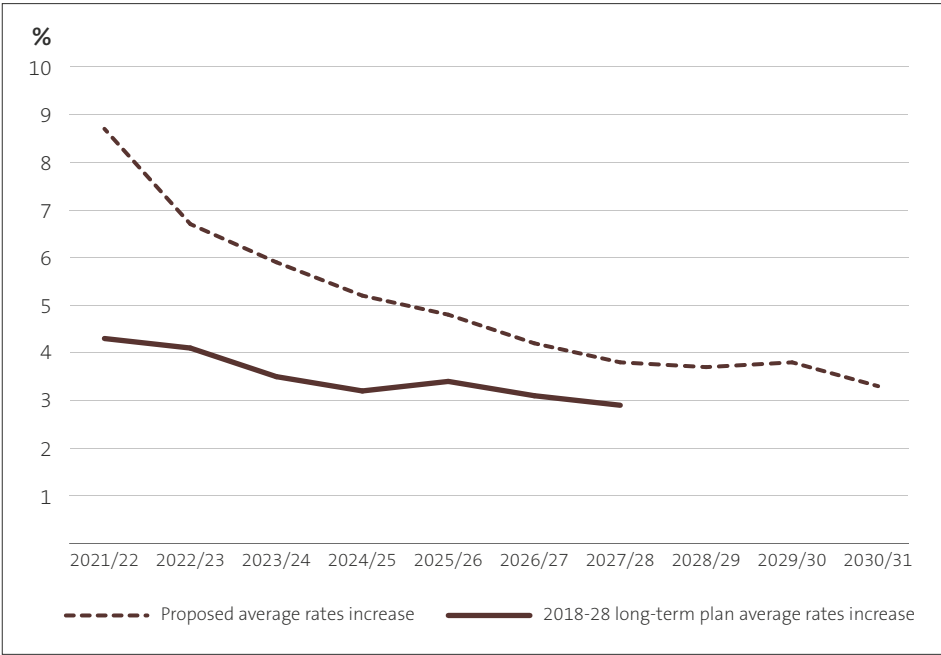
Source: Central Hawke’s Bay District Council, *Facing the Facts: Consultation Document Long Term Plan 2021-31*, page 7.

Addressing challenges will come at an increased cost to ratepayers

- 2.11 The main way councils responded to challenges was to increase their investment in their operations and infrastructure. For some councils, the increased investment was significant. For example, West Coast Regional Council proposed a 20% increase in 2021/22 operating expenditure compared to what was budgeted for in its 2020/21 annual plan. This increase was similar to that of other regional councils.
- 2.12 The need to invest more in core activities was the main reason many councils gave to support rates increases that were more than what had been previously signalled. Covid-19 also affected some proposed rates increases. See paragraphs 2.16 to 2.21 for more information.

2.13 Figure 2 sets out the average increase in proposed rates revenue⁶ that councils consulted on and compares that to what councils forecast in their 2018-28 long-term plans. The proposed rates increase is significantly higher than what councils had previously signalled, especially in 2021/22, 2022/23, and 2023/24.

Figure 2
Proposed average increase in rates revenue, as reported in 2021-31 consultation documents, compared to 2018-28 long-term plan forecasts

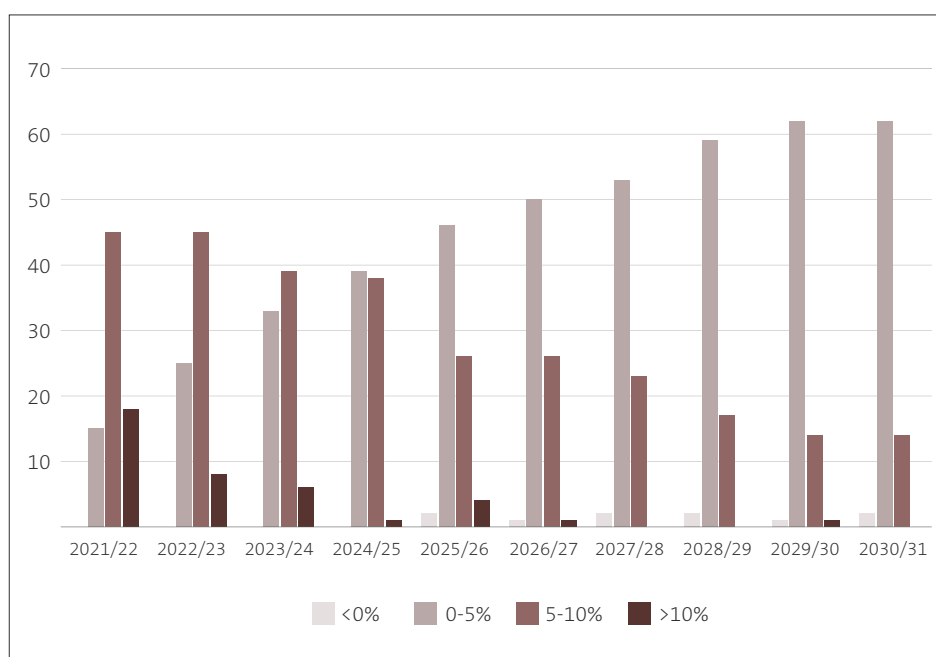


Source: Our analysis of the information provided by councils to support the 2021-31 consultation documents and the 2018-28 long-term plans.

2.14 Figure 3 shows the spread of increases in rates proposed by councils. Reflecting the larger average increase shown in Figure 2, most councils proposed to increase their rates by between 5% and 10% in 2021/22, 2022/23, and 2023/24. About 20% of councils proposed to increase their rates by more than 10% in 2021/22. From 2024/25, most councils' proposed rates increases were between 0% and 5%.

⁶ In this paragraph and in Figure 2, the average increase in rates revenue has been calculated as the average of all the councils' individual increase in rates revenue.

Figure 3
How many councils proposed to increase their rates for 2021/22 to 2030/31 and the percentage increase proposed



Source: Our analysis of the information provided by councils to support the 2021-31 consultation documents.

- 2.15 Our report on the audits of the 2021-31 long-term plans will further explore the effect of rates revenue forecast in the adopted long-term plans.

Explaining rates increases in the consultation documents

- 2.16 Information about rates and the increase faced by ratepayers is always of high public interest. These matters were discussed in several ways in the 2021-31 consultation documents. We considered that there were generally good links between the average rates increase and the reasons for those increases in the consultation documents.
- 2.17 However, some councils could improve how they explain what is causing the rates increase. One way could be to provide clear disclosure on increases to both the general rate and targeted rates in the consultation document. We saw instances where councils focused only on the general rate increase, and there was little or no discussion of the change in targeted rates proposed. Targeted rates can disproportionately affect some ratepayers. Without a clear explanation in the consultation document about how the targeted rates change, some ratepayers could be disadvantaged in their ability to engage with the council.

2.18 Most councils use the “sample rates information”⁷ contained in the consultation document to give individual ratepayers an indication of the size of the increase they will face in their rates. For this to work well, councils need to include all rates a ratepayer might face. We recognise that this can be challenging, particularly where councils have many different rates. Online rates calculators can be used to address this challenge (see paragraph 2.42).

Therefore, we encourage councils, when they are preparing their consultation documents, to take due care in ensuring that the proposed rates increases disclosed are accurate.

2.19 After South Wairarapa District Council adopted its 2021-31 long-term plan, the Council and our Office received correspondence from members of the community asking about the size of the 2021/22 rates increase. The rates being charged in rates invoices were significantly higher than what had been indicated in the South Wairarapa District Council’s consultation document.

2.20 Like some other councils, South Wairarapa District Council provided rates relief by reducing the proposed increase in the 2020/21 rates because of concerns about the economic impact of Covid-19. This rates relief ended in 2021/22. However, the Council’s consultation document did not clearly outline how the 2021/22 rates would be affected by the required catch-up. This was also not something that was identified as part of the audit. In response to the concerns raised, the Council published a statement to explain to its community what had happened and what it planned to do in response.

2.21 There is a high public interest in rates and rates increases. Therefore, we encourage councils, when they are preparing their consultation documents, to take due care in ensuring that the proposed rates increases disclosed are accurate.

The ongoing impact of Covid-19 on councils was limited

2.22 As outlined in paragraphs 1.24 to 1.25, Covid-19 indirectly affected many councils in developing their 2021-31 long-term plans. The 2021-31 consultation documents discussed the extended impact of Covid-19 on council operations and communities. We expected these types of disclosures as many communities would want to know how their council planned to support them in the recovery from Covid-19. We also expected interest in how councils planned to respond to long-term issues such as climate change, freshwater quality, and changing health standards. Communities will expect solutions that balance the recovery from Covid-19 with these long-term issues.

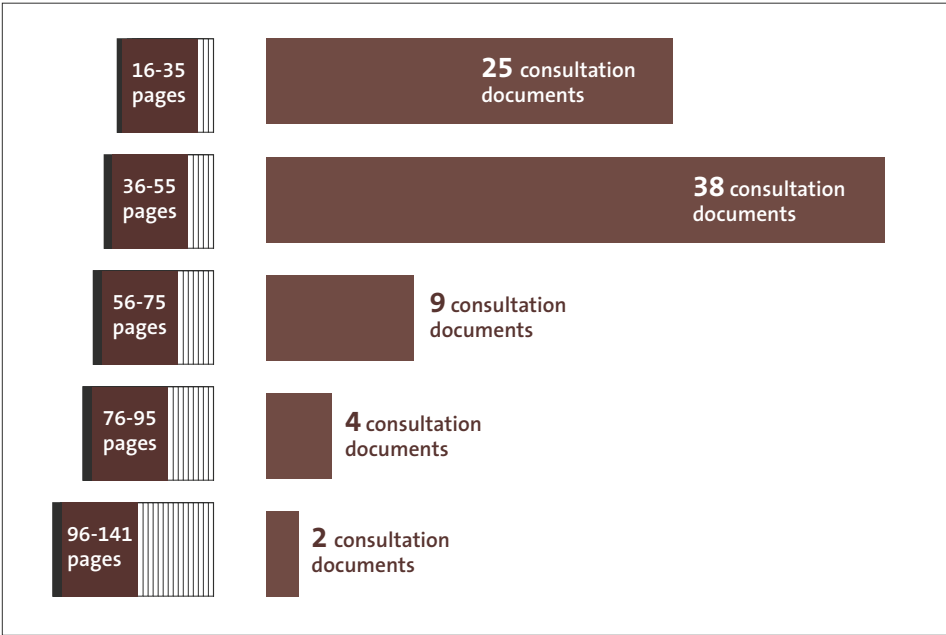
⁷ Councils are required to disclose in their consultation document examples of the impact of the proposals on the rates. This disclosure should cover different categories of rateable land (for example, residential, industrial, commercial, or rural properties) and with a range of property values.

- 2.23 Most councils identified that, although the impact of Covid-19 on their wider community could be significant, the impact on the council operations was less significant. This was because the councils assumed there would be no further long-running lockdowns, and the borders would progressively open, signalling a return to more normal economic activity. These assumptions were consistent with forecasts from the Treasury that had been released as councils were developing their forecasts.
- 2.24 There were exceptions. Auckland Council described the challenges in achieving its objectives because it would receive \$450 million less revenue in 2021 and cumulative reductions in revenue projected to reach about \$1 billion by 2023/24. This reduced revenue meant the Council proposed to reprioritise some of its planned works.
- 2.25 In Rotorua Lakes Council's consultation document, one of the key priorities was economic development. Immediately after the March 2020 lockdown, Rotorua experienced the third largest economic drop in gross domestic product. Revenue within the tourism sector dropped by 40%. This compounded existing challenges like limited employment, low wages, undeveloped land, and a lack of appropriate infrastructure needed for commercial and industrial growth. The Council proposed several responses, including providing \$29 million to support economic development and economic recovery projects.
- 2.26 As noted in paragraph 1.23, many councils reduced proposed rates increases to provide relief to those affected by Covid-19 lockdowns and restrictions. Where affected councils were unable to sustain the rates relief, their proposed higher rates increase in 2021/22 effectively reflected two years of rates increases.

Consultation documents are getting longer

- 2.27 A main challenge for councils preparing consultation documents is to present information in a concise and readable way. To do this well, councils need to achieve a balance between context and the issues being consulted on.
- 2.28 One factor we have considered in each of the last three long-term plan rounds is the length of consultation documents. The 2021-31 consultation documents ranged from 16 pages (Clutha and South Wairarapa District Councils) to 141 pages (Tauranga City Council). The average length of all consultation documents was 46 pages. Figure 4 gives more information on the length of consultation documents.
- 2.29 The 2018-28 consultation documents ranged from 16 pages to 90 pages, with an average length of 37 pages. For the 2015-25 consultation documents, the average length was 32 pages.

Figure 4
The length of councils' 2021-31 consultation documents



Source: Our analysis of the 2021-31 consultation documents.

2.30 Consultation documents are getting longer with each iteration. We are not surprised by this. We observed that councils were clearer in their consultation documents about the main challenges they and their communities were facing (see paragraphs 2.6 to 2.10). To do this well will generally mean a longer consultation document.

2.31 However, there is a risk that a longer consultation document will not be read or not read in full. A longer document only works well if the consultation documents are written in plain English and presented in a way that keeps the reader in mind. This is what we generally observed in the 2021-31 consultation documents.

We encourage councils to carefully consider the content and, where possible, remove less important material if they are developing a longer consultation document.

2.32 At 141 pages, Tauranga City Council had the longest consultation document. The Council used white space throughout the document, which made it uncluttered and easy to read. It also included what we considered were effective graphics, particularly in the early part of the document. There was also a lot of information about the six matters the Council was seeking community feedback on.

- 2.33 Despite that, the size of the Tauranga City Council’s consultation document might have been daunting for some in the community to engage with. We encourage councils to carefully consider the content and, where possible, remove less important material if they are developing a longer consultation document.
- 2.34 In our view, clear messages, and the ability of the community to engage with them, are more important than the number of pages. Using infographics and a mix of text, tables, and diagrams can effectively convey key messages to the reader. A long document is also easier to read if it is structured logically, with a clear hierarchy of headings.

Different approaches councils took to encourage public participation

- 2.35 Councils are increasingly trying different approaches to better engage with their communities. By offering a range of ways for people to engage, it allows people to select the right tools for them to engage with the issues and carry out meaningful and responsive engagement with their Council. We discuss some notable examples in paragraphs 2.37 to 2.49.

We encourage other councils to consider whether they could also make use of these different approaches to create more public participation.

- 2.36 Few of the approaches below are new to this consultation document round.⁸ However, some are only being used by a small number of councils. We encourage other councils to consider whether they could also make use of these different approaches to create more public participation.

Early engagement

- 2.37 An increasing number of councils are engaging with their communities early. This approach helps a council to understand what is important to their community, which then informs the development of the consultation document and long-term plan.



- 2.38 Northland Regional Council had a series of pop-up stalls at various community events and used an online feedback portal to gather responses in 2020, ahead of developing proposals for its long-term plan.

Dedicated webpages

2.39 Many councils make use of dedicated webpages when consulting with their communities. This approach means that people have a “one-stop shop” to obtain further information.



2.40 In our view, Wellington City Council had an effective consultation website. Videos explained the Council’s priorities and the process. Each of the Council’s “big decisions”⁹ was set up as a separate webpage. As well as including almost all relevant information about each decision, the Council also allowed members of the community to ask questions through these webpages. The Council included both the questions and the answers on the webpage for others to view.

2.41 Although we can see the benefits of Wellington City Council’s approach, we also saw some drawbacks. Someone could submit on the long-term plan through the webpages without reading the full consultation document. As well as not considering the whole document, they might have also missed that our audit report included qualifications where we disagreed with the quality of the information and assumptions that the Council used to inform the consultation document (see paragraphs 5.44, 5.48, and 5.49). We recognise that an individual would have to read 72 pages of the full consultation document before coming to the audit report.

Online rates calculators

2.42 Some councils had an online rates calculator that ratepayers could use to assess how key proposals would affect their rates before giving feedback on proposals. This complemented the sample rates information we describe in paragraph 2.18.



2.43 This approach meant that ratepayers had specific information on how a council’s proposal would affect them. Some councils – including Auckland Council, Hamilton City Council, and Tauranga City Council – also offered an online rates calculator when preparing their 2018-28 long-term plans.

9 This is how Wellington City Council defined the consultation issues it wanted specific feedback on.

Social media

- 2.44 Some councils used social media to engage with their communities. For example, Napier City Council and Rangitikei District Council used Facebook’s “live sessions” to connect with those in their communities that prefer to engage online.
- 2.45 Auckland Council and Hamilton City Council were among the councils that asked for feedback through comments on Facebook, Instagram, and Twitter.
- 2.46 Generally, councils made it clear that feedback received through social media channels would not be considered a formal submission. This might discourage people from engaging.



Accessibility considerations

- 2.47 As with preparing its 2018-28 long-term plan, Auckland Council ensured that its diverse communities could engage with its 2021-31 consultation document. The Council provided videos, documents, and feedback forms that were translated into te reo Māori, simplified Chinese, Korean, Fa’asamoa, Faka-Tonga, and New Zealand Sign Language.
- 2.48 Dunedin City Council posted a video of someone reading the consultation document in its entirety for someone to listen to. Northland Regional Council advised that if members of the community wanted to provide feedback in te reo Māori or New Zealand Sign Language, they could do so at its scheduled events.
- 2.49 Environment Canterbury accepted video feedback, which could be uploaded through the online submission process.



A time to review the legislative requirements

- 2.50 In Part 1, we discussed the legislative requirement of consultation documents in the Local Government Act 2002. The intent of introducing consultation documents was to improve council engagement with communities over the content of long-term plans. Councils have now produced audited consultation documents for three long-term plan cycles.
- 2.51 In our view, councils are producing consultation documents that are more engaging than the summary of the draft long-term plans that councils produced before 2015.

- 2.52 Although councils are free to decide what to put in their consultation documents to meet the Act's requirements, there are some mandatory requirements (as outlined in section 93C of the Act). We have heard from some councils that including the mandatory requirements can often be a compliance exercise and these are not considered to add value to the consultation document. Including additional information can also add to the length of the document, which increases the risk that the document will not be read.
- 2.53 There has also been a lot of change in the ways that councils choose to engage with their communities. Increasingly, councils are not using the document to engage with their communities but are instead increasingly using online channels. As we noted in paragraph 2.41, people can submit on the long-term plan without reading the full consultation document that is meant to be the basis of that engagement. This indicates that the legislation might be starting to fall behind current engagement practices.

Recommendation

We recommend that the Department of Internal Affairs and the local government sector review the consultation requirements for long-term plans to ensure that the engagement process and content requirements of a consultation document remain fit for purpose.

3

The types of issues councils consulted on

- 3.1 In this Part, we discuss the:
- number of consultation issues presented to communities; and
 - types of issues that councils consulted on.

The number of consultation issues presented to communities

- 3.2 We used judgement when collating the issues presented to communities because each consultation document is presented differently. We defined a “consultation issue” as one that presented a range of options and asked for feedback from the community.
- 3.3 Overall, we counted 339 consultation issues that were presented to the public. The average number of consultation issues presented by each council was four. The number of consultation issues presented by each council ranged from 0 to 15. Northland Regional Council and Hamilton City Council presented the largest number of consultation issues.
- 3.4 Northland Regional Council presented 15 consultation issues to their community. These issues were grouped around the Council’s three groups of activities: natural environment (five issues), community resilience (seven issues), and regional leadership (two issues), and whether the council should contribute funding to a regional conference and events centre (one issue). The response to climate change was the foundation of several of the Council’s consultation issues, including flood water protection and water resilience.
- 3.5 In preparing its consultation document, Northland Regional Council used a consistent visual theme to display the issues. In our view, this would have made it easier for the community to engage with. The Council described each issue on one or two pages. The consultation document overall was 60 pages.
- 3.6 Hamilton City Council presented 11 consultation issues to their community.¹⁰ We found that the Council clearly presented the issues that were being consulted on to its community. The Council included a range of options, the consequences of these options, and the Council’s preferred option.
- 3.7 Palmerston North City Council and Christchurch City Council presented no specific issues for consultation with their communities. Instead of identifying consultation issues with options for the community to consider, these two councils used a series of questions to help guide the reader on the topics the councils wanted feedback on.

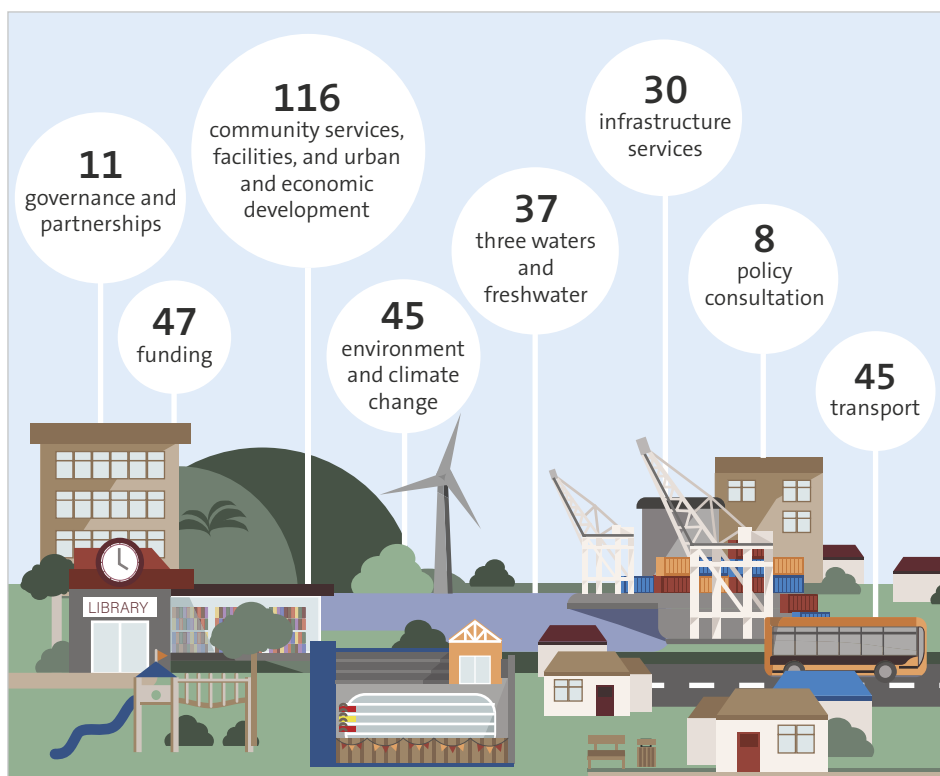
¹⁰ Hamilton City Council’s consultation document was presented around 10 consultation issues. However, because the Council was seeking its community’s views on two separate roading projects, we have counted these as two separate consultation matters.

- 3.8 Presenting no issues is an unusual approach for a council to take in consulting on a long-term plan. In our view, having no issues for consultation does not invalidate a council’s ability to engage with its community on the content of the long-term plan. However, it is even more important for the consultation document to set out the main challenges and what the proposals are to respond to them. In our view, Christchurch City Council met this expectation and Palmerston North City Council did not (see Part 5).
- 3.9 In our view, this approach lends itself to a smaller consultation document that is clear and concise in its discussion of what a council proposes to do. Both councils produced longer consultation documents (each was more than 70 pages). We do consider there were opportunities for both councils to reduce the length of their consultation document.

What councils consulted on

- 3.10 We reviewed the consultation issues where councils presented options to communities and requested their submissions and feedback. Figure 5 shows the types of issues consulted on by category.

Figure 5
The types of issues consulted on in the 2021-31 consultation documents



Source: Our analysis of the 2021-31 consultation documents.

3.11 The largest category of issues that councils consulted their communities on related to community services, facilities, and urban and economic development. There were 116 separate issues on these topics (see Figure 6) raised by 57 councils, of which 76 issues related to town and community planning and the proposal to develop community facilities or other services. Despite the multiple challenges¹¹ facing councils, “place building” was still a main focus for many councils.

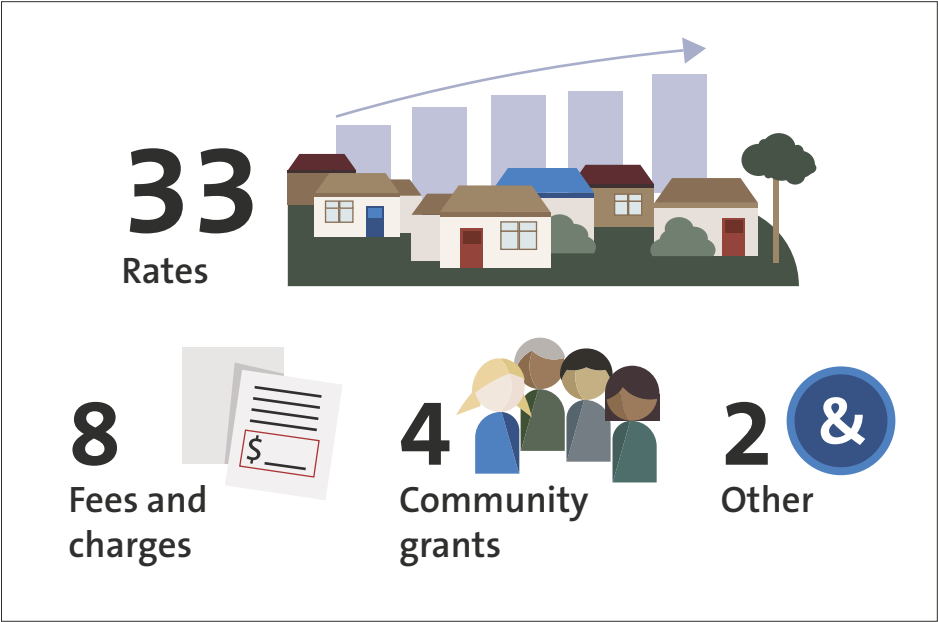
Figure 6
The main types of community services, facilities, and urban and economic development issues consulted on in the 2021-31 consultation documents



Source: Our analysis of the 2021-31 consultation documents.

3.12 Unsurprisingly, many councils consulted on specific funding issues (see Figure 7). Generally, these funding issues related to changing the mix of general or targeted rates. In some cases, councils consulted on changing their fees and charges, such as the cost or introduction of paid on-street parking.

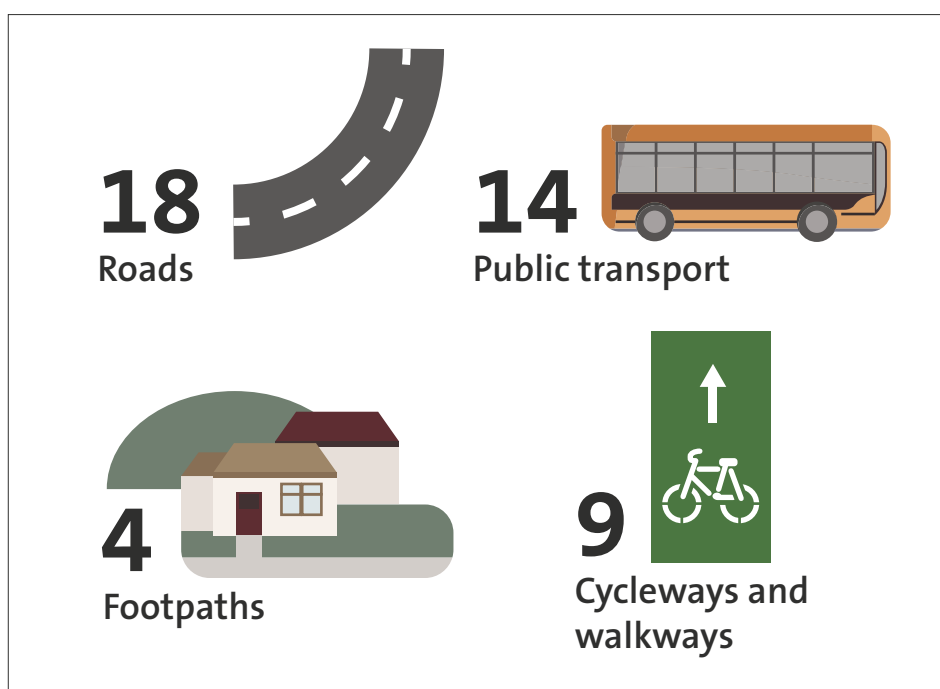
Figure 7
The main types of funding issues consulted on in the 2021-31 consultation documents



Source: Our analysis of the 2021-31 consultation documents.

3.13 Figure 8 outlines the type of transport issues in the consultation documents that councils consulted their communities on. Of the 45 transport issues consulted on by councils, 18 related to managing council roads (for example, the amount of maintenance or surfacing completed each year). Of the 45 issues, 14 related to changes to public transportation services (these mostly related to changes to bus services).

Figure 8
The main types of transport issues consulted on in the 2021-31 consultation documents



Source: Our analysis of the 2021-31 consultation documents.

Climate change matters disclosed in the 2021-31 consultation documents

4

- 4.1 In this Part, we cover the climate change matters disclosed in the 2021-31 consultation documents, including:
- why we focused on climate change;
 - how climate change was discussed in the consultation documents; and
 - the types of environmental issues, including climate change, councils consulted their communities on.

Why we focused on climate change

- 4.2 New Zealand is expected to experience the effects of climate change. These include higher temperatures, a change in rainfall patterns, rising sea levels, and more frequent and intense extreme weather events.
- 4.3 Adapting to and mitigating the impacts of climate change are significant challenges for councils. A 2019 report by Local Government New Zealand estimated that local government's infrastructure at risk was about \$8 billion.¹² Given councils' role in environmental planning and regulation, much of the responsibility for adaptation falls to local government.
- 4.4 When we reported on the results of our audits of the 2018-28 long-term plans, we observed that:
- ... councils need to be transparent with their communities about their current understanding of risk and what this means for future decision-making.*
- For the 2021-31 LTPs, we consider that there is a need for a comprehensive discussion of resilience and climate change issues with the community. This discussion needs to include financial and non-financial effects.¹³*
- 4.5 As a result, climate change assumptions and disclosures were a focus for our auditors when auditing the 2021-31 long-term plans and associated consultation documents. We comment on what we found in our review of consultation documents.

All consultation documents discussed climate change

- 4.6 All councils used climate change assumptions to inform their underlying information. All consultation documents also discussed climate change. These disclosures generally covered how climate change was expected to affect the council and its community, and what the council planned to do in response.
- 4.7 We commend the councils on doing more to discuss climate change with their communities.

¹² Local Government New Zealand (2019), *Vulnerable: The quantum of local government infrastructure exposed to sea level rise*, page 2.

¹³ Office of the Auditor-General (2019), *Matters arising from our audits of the 2018-28 long-term plan*, page 45.

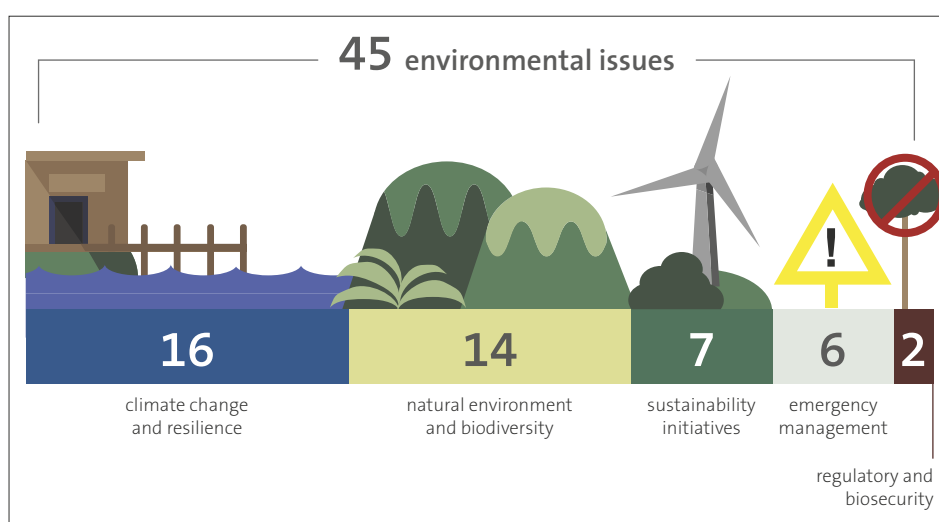
- 4.8 In our view, councils' planned responses to climate change, as outlined in consultation documents, were variable. This is expected because councils are at different stages of assessing the impact of climate change and their role in climate change adaptation and mitigation. Some councils are still in an investigation phase. Other councils have put projects in place or are consulting on potential projects.
- 4.9 For example, after Bay of Plenty Regional Council declared a climate change emergency in June 2019, it set out its "climate change statement" in its consultation document. This statement outlined the Council's vision and objectives, the "transformational shifts" required in the region, and what it planned to do as a result. The Council saw the statement as a framework to inform and guide how it could work in partnership with Māori and support conversations about regional climate change challenges.
- 4.10 For some councils, preparing for climate change was at the centre of their planning. For example, Waipā District Council's consultation document set out four community outcomes and five external strategic priorities, of which one was "preparing for climate change". The Council's consultation document outlined that all its strategies, plans, policies, activities, and work programmes will be shaped to successfully deliver on these outcomes and strategic priorities.
- 4.11 Central Otago District Council integrated climate change throughout its consultation document, which we considered to be particularly effective. Although the Council did not consult on specific climate change matters, it highlighted the potential impacts of climate change (such as more frequent extreme weather events) on its infrastructure. The Council consulted on projects that would also achieve emissions reductions, such as installing energy efficient systems at its facilities and encouraging walking and cycling.
- 4.12 Our report on our audits of the 2021-31 long-term plans will report more fully on councils' planned responses to climate change.

The environmental and climate change issues that councils consulted on

- 4.13 Figure 9 summarises the types of environmental issues councils consulted their communities on. Although we can view these as separate issues, in many ways climate change and resilience intersect with environmental issues as well as with broader issues such as health and community well-being. They also impact on socioeconomic and cultural factors. This demonstrates the significance of environmental issues as a consultation matter.

- 4.14 In total, 29 councils consulted on 45 separate environmental issues. The largest types were climate change and resilience (16 issues) and the natural environment and biodiversity (14 issues).

Figure 9
The main types of environmental issues consulted on in the 2021-31 consultation documents



Source: Our analysis of the 2021-31 consultation documents.

Examples of climate change and resilience issues consulted on

- 4.15 We identified 16 consultation issues where councils are taking action to respond to climate change and working to make their communities more resilient. Consultation issues included the size and extent of the council response, the timing of projects, and asking the community how strong the response to a changing climate should be.
- 4.16 We recognise that the impacts of climate change are far broader and can be reflected through other interrelated issues, such as the other 29 environmental issues and the 47 issues on funding.
- 4.17 Councils are also responsible for planning for and providing infrastructure, managing land use, and avoiding or reducing risks from natural hazard events such as floods, storms, and sea-level rise. Climate change is changing the severity and frequency of these events. Figure 10 lists some examples of the consultation issues relating to climate change.

Figure 10
Some consultation issues relating to climate change

Consultation issue	What are councils doing?
Strategies and planning	Councils are at different stages in their climate change response, and some wanted community feedback on proposals to prioritise planning and strategic development work. Whanganui District Council consulted on the development and implementation of its coastal plan to assess options for coastal management, which will inform the development of budgets for implementation of solutions to erosion, restoration to wetlands, and weed control.
Level of investment	Some councils were seeking community feedback about the level of investment they were proposing to make into climate change responses. Timaru District Council asked its community how much it should invest, with a preferred option to make some progress, including the development of a climate change strategy and to increase engagement with communities and businesses to lead and support climate change resilience efforts. Although the Bay of Plenty Regional Council saw its biggest impact as influencing a greater use of public transport, it also asked its community for feedback on which climate change projects it should fund. These projects included facilitating community conversations about adaptation approaches and facilitating a regional approach to climate change risk assessment and adaptation plans.
Flood protection works	Hawke's Bay Regional Council consulted on a proposal to focus on water conservation and water use efficiency, as well as improving flood protection systems by removing gravel and dredging some of the region's rivers. Similarly, Gisborne District Council consulted on its flood plan proposal to build stop banks. This will ensure a higher level of protection from floods by 2030.
Transportation network	The disruption to the transportation network from sea-level rise, flooding, or landslides could lead to increased maintenance costs. Wellington City Council highlighted that one of the most significant actions as part of the Te Atakura First to Zero consultation option to reduce the city's emission will be shifting transport modes from fossil fuels to electric cars, public transport, cycling, and walking. The Greater Wellington Regional Council consulted on an option to electrify the bus and rail network to reduce public transportation emissions through decarbonisation so that it can achieve carbon neutrality by 2030.

Examples of other environmental issues consulted on

Natural environment and biodiversity

4.18

Hamilton City Council has noted that a priority for its community was shaping a green city. Because of this, the Council consulted on gully restoration. This included investment to maintain the city's main gully systems, improve access through paths and boardwalks, establishing a biodiversity and monitoring programme, and supporting the community to care for and restore nature.



- 4.19 Napier City Council and Hawke's Bay Regional Council both consulted on a project in partnership with mana whenua to create a new regional park (Ahuriri Park) to promote better environmental and recreational outcomes. The Ahuriri Estuary (Te Whanganui-a-Orotū) receives 75% of Napier's stormwater. Napier City Council and Hawke's Bay Regional Council proposed to invest in the development of the park. This could benefit the area in many different ways, such as stormwater quality improvements, connections from the wetland area to the estuary, increased biodiversity and indigenous planting, and habitat restoration and protection.

Biodiversity and pest management

- 4.20 New Zealand's biodiversity is threatened by habitat loss and damage. Moreover, climate change will mean changes in the type and distribution of pest species. Protecting biodiversity was a consultation issue for the Waikato and Northland Regional Councils, which would mean investing in biodiversity management and restoration efforts to support the community's economic, environmental, and cultural well-being.



- 4.21 Gisborne District Council consulted on improving biodiversity and funding several projects, including indigenous planting activities, dune and wildlife protection, and the transformation of the Waingake bush.

Sustainability initiatives

- 4.22 Upper Hutt City Council explained that it will be incorporating sustainability initiatives into its operations as part of its Sustainability Strategy. One of the consultation issues proposed was to implement a sustainability stimulus grant to help reduce the city's emissions profile.



- 4.23 Waikato Regional Council consulted on developing a sustainable home scheme where the Council would borrow money to help households install improvements like water tanks, insulation, double glazing, heating, ventilation, solar power, and septic tank upgrades. This would support well-being by helping homeowners make improvements without having to pay the full cost upfront. Creating healthy homes and sustainable forms of energy generation, and reducing air pollution, would also result in health benefits.

Emergency management

- 4.24 Northland Regional Council consulted on constructing a new emergency co-ordination centre because there is no dedicated centre in Northland. In consulting on this issue, the Council acknowledged that recent emergency events in New Zealand have highlighted the need for purpose-built, multi-agency co-ordination centres.



5

The audit reports we issued

- 5.1 In this Part, we discuss the audit reports we issued on the 2021-31 consultation documents. We cover the:
- types of audit reports that can be issued;
 - audit reports we issued compared to previous consultation document rounds;
 - adverse audit opinion we issued for Palmerston North City Council; and
 - main reasons we included emphasis of matter paragraphs in our audit reports, including uncertainties about the:
 - proposed Three Waters Reform Programme;
 - delivery of the proposed capital expenditure programme;
 - asset condition and performance information used to inform renewals forecasts; and
 - funding and financing assumptions.

The types of audit reports that can be issued

- 5.2 An audit report will be either standard or non-standard.¹⁴ A non-standard audit report is one that contains:
- an adverse opinion; and/or
 - a qualified audit opinion; and/or
 - an emphasis of matter paragraph; and/or
 - an “other matter” paragraph.
- 5.3 An adverse opinion is quite rare and means that the auditor disagrees with the entity. It indicates that, in the auditor’s professional opinion, the underlying information and assumptions in the consultation document were unreasonable (we cover this in more detail in paragraphs 5.15 to 5.20).
- 5.4 When an auditor expresses a qualified audit opinion because of a disagreement it means that whatever the auditor disagrees with, it matters, but is not pervasive. A qualified opinion can also be called a modified opinion.
- 5.5 An adverse opinion and qualified opinion can also be called a modified opinion.
- 5.6 An auditor will include an emphasis of matter paragraph or an “other matter” paragraph in the audit report to draw attention to:
- a breach of law; or
 - a matter or matters presented or disclosed that are of such importance that they are fundamental to readers’ understanding of the audited information.
- 5.7 An emphasis of matter paragraph does not necessarily mean that the auditor has found anything wrong. Instead, the auditor wants to draw the readers’ attention

¹⁴ For a plain English explanation of the different forms of audit reports, see our blog post *the kiwi guide to audit reports* at oag.parliament.nz.

to a matter or matters that are fundamental to understanding – in this case – the consultation document.

- 5.8 An audit report can contain more than one modification or more than one emphasis of matter paragraph.

We issued more non-standard audit reports than in previous rounds

- 5.9 Figure 11 shows the audit reports we issued on consultation documents compared to the previous two consultation document rounds.

Figure 11
The types of audit reports issued on the 2021-31 consultation documents, compared with the 2015-25 and 2018-28 consultation documents

Audit report issued	2021-31	2018-28*	2015-25
Adverse	1	0	0
Qualified audit opinion (“except-for” opinion)	10	0	0
Unmodified audit opinion that included an emphasis of matter paragraph**	60	7	6
Unmodified audit opinion that included an “other matter” paragraph	0	0	2***
Standard audit report	7	70	70

* We did not audit the consultation document prepared by Kaikōura District Council in 2018. An order in Council in March 2018 allowed the Council to prepare a customised unaudited three-year plan due to the exceptional circumstances arising out of the 2016 Kaikōura earthquake.

** As noted in paragraph 5.8, one audit report can contain more than one emphasis of matter paragraph. We issued 121 emphasis of matter paragraphs in total. Full details for each council can be viewed in the Appendix.

*** Unmodified with “scope clarification”. We expressed no opinion on some matters contained in two councils’ consultation documents. These were for Upper Hutt City Council (relating to statements about a possible amalgamation) and Napier City Council (relating to statements about a Local Government Commission report about potential amalgamation issues).

Source: Our analysis of the consultation documents audit reports.

- 5.10 Of the 78 consultation documents we audited, only seven (9%) audit reports were standard.
- 5.11 The seven councils that received a standard audit report were all regional councils. This reflects the decision we took to include an emphasis of matter paragraph for all territorial authorities and Greater Wellington Regional Council that were affected by the uncertainty of the three waters reforms (for more detail, see paragraphs 5.21 to 5.25).
- 5.12 We issued qualified audit opinions on 10 consultation documents. For the 2018-28 and the 2015-25 consultation documents, we did not issue a qualified audit opinion on a consultation document.

- 5.13 The 10 councils that received a qualified audit opinion (“except-for” audit opinion) also had at least one emphasis of matter paragraph included in its audit report.
- 5.14 Sixty audit reports included at least one emphasis of matter paragraph. These emphasis of matter paragraphs highlighted disclosures of uncertainties about:
- the proposed Three Waters Reform Programme (see paragraphs 5.21 to 5.25);
 - delivery of the proposed capital expenditure programme (see paragraphs 5.26 to 5.35);
 - condition and performance of assets (see paragraphs 5.36 to 5.47); and
 - funding and financing assumptions (see paragraphs 5.48 to 5.57).

We issued one adverse audit opinion

- 5.15 We issued an adverse audit opinion on Palmerston North City Council’s consultation document.
- 5.16 We determined that Palmerston North City Council’s consultation document did not provide an effective basis for public participation in the Council’s decisions about the proposed content of its 2021-31 long-term plan. This was because, in the auditor’s opinion, the underlying information and assumptions in the consultation document were unreasonable.
- 5.17 The Council had included an upgrade to its wastewater treatment plant from year four of its long-term plan. Concurrently with consultation on the long-term plan, the Council was engaged in public consultation about which environment the water would be returned to after treatment and the anticipated annual cost for each household associated with each option. At that time, there was no certainty about the proposed three waters reforms, including whether the Council would be financially responsible for the upgrade. This meant that the Council made the decision, in the interests of transparency, to include the anticipated costs in its long-term plan.
- 5.18 However, the underlying information and assumptions on which Palmerston North City Council’s consultation document were based were inconsistent with the Council’s own financial strategy. The Council had adopted a financial strategy that capped the Council’s debt at 200% of revenue. With the inclusion of the wastewater treatment plant upgrade, the forecasts underlying the consultation document showed that the Council planned to exceed its own debt cap after year four of the long-term plan (and was forecasting to exceed the debt limits set by the New Zealand Local Government Funding Agency after year five). Further, the Council disclosed in its consultation document that it would be highly unlikely that lenders would be prepared to lend the amounts that were included in the underlying information.
- 5.19 In our view, this meant that Palmerston North City Council did not have a credible plan for funding its activities and planned projects. In our view, the Council

needed to consider other options, such as reducing levels of service, removing or deferring planned projects, and increasing rates further to keep debt amounts within its own parameters.

- 5.20 We determined that the consultation document would not provide an effective basis for public consultation because of the unreasonable assumptions and underlying information and the inconsistencies with the Council's own financial strategy.

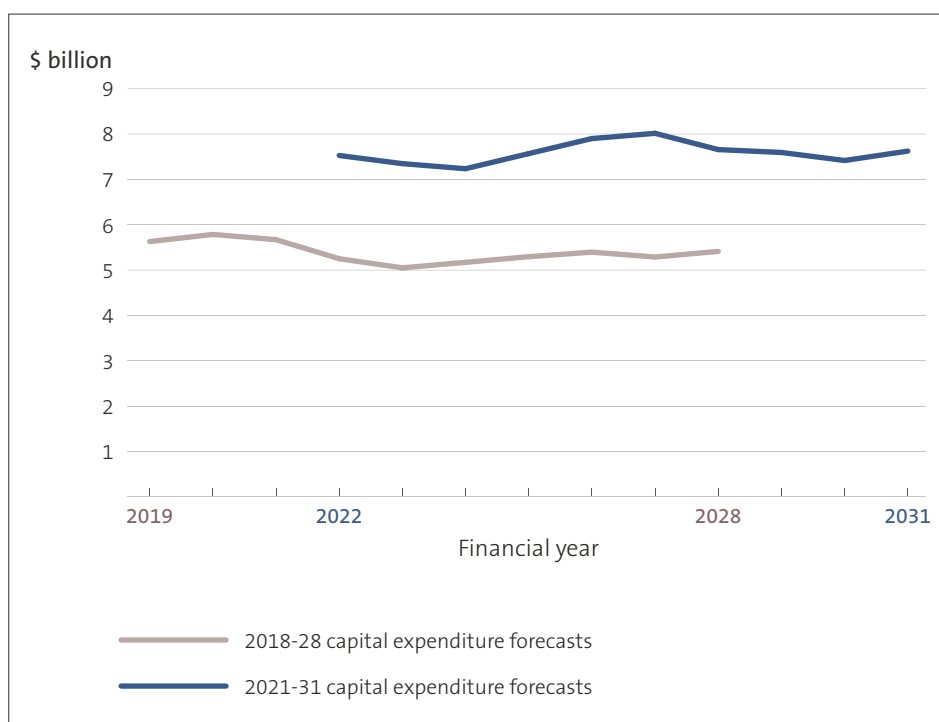
Uncertainty over the proposed Three Waters Reform Programme

- 5.21 The Government's Three Waters Reform Programme aims to reform local government's three waters service delivery arrangements.
- 5.22 The Three Waters Reform Programme proposes to create four publicly owned multi-regional entities that have the scale, expertise, operational efficiencies, and financial flexibility to provide three waters services. Currently, most three waters services are provided by territorial local authorities.
- 5.23 At the time of preparing the consultation documents, the Government had publicly announced its proposal to reform three waters service delivery. However, the reform proposal was not yet fully developed. Additionally, the Government made it clear that assets would remain owned by the community if the reform progressed. Therefore, Taituarā – Local Government Professionals Aotearoa recommended that councils should continue to forecast the three waters services in their underlying information as if they would continue to own three waters assets for the period covered by their plan. This recommendation was followed by the relevant councils. The councils disclosed the uncertainty surrounding the three waters reforms and the basis on which they had prepared their underlying information.
- 5.24 We supported this approach because, in our view, there was no alternative reasonable and supportable assumption in respect of three waters reform.
- 5.25 Given three waters infrastructure is significant to most councils, we determined that where a council had significant three waters assets, we expected the audit report to include an emphasis of matter paragraph. This resulted in 67 local authorities (or 86% of all councils) receiving an emphasis of matter paragraph to draw attention to the council's own disclosures on the uncertainty over the proposed Three Waters Reform Programme and the basis on which the underlying information had been prepared.

Uncertainty about the delivery of the proposed capital expenditure programme

- 5.26 In the 2021-31 consultation documents, councils planned a significant increase in capital expenditure (see Figure 12).

Figure 12
Councils' proposed capital expenditure forecasts, as reported in the 2021-31 consultation documents



Source: Our analysis of the 2021-31 consultation documents.

- 5.27 As well as councils planning to deliver more than they have in the past, the current operating environment is contributing to the uncertainty of delivery of capital expenditure programmes. Councils are competing in an already constrained contracting market, and the sector as a whole is competing with the rest of New Zealand. Covid-19 and lockdowns are likely to affect progress in some areas as well as potential supply chain delivery issues affecting resource availability.
- 5.28 In the past, most councils have not delivered on their total capital expenditure budgets.¹⁵
- 5.29 Many councils demonstrated that they were working to better deliver on their capital expenditure budgets. Steps taken included recruiting additional or specialist staff, such as project management staff, getting the required consents in place early, or working with other councils. However, this is not a guarantee that the significant increase would be delivered.

- 5.30 Most councils were aware of the constrained operating environment and potential delivery issues. They made appropriate disclosures around these uncertainties in their consultation documents. We included an emphasis of matter paragraph in 22 council audit reports, which drew attention to the uncertainty over the delivery of their capital expenditure programmes.

West Coast Regional Council's audit qualification

- 5.31 West Coast Regional Council received a qualified audit opinion because it could not provide our auditor with sufficient evidence to support the capital spending assumptions the Council had made.¹⁶
- 5.32 The Council had planned to spend \$30.9 million on its flood and erosion protection assets during the first two years of its plan (compared to delivering an actual spend of \$3.5 million on capital works in 2020 and \$1.9 million in 2019).
- 5.33 In its underlying information, West Coast Regional Council had assumed that it would have the required resources, contracted services, and resource consents in place to complete the projects in time.
- 5.34 We considered that there were risks to delivery of the capital programme, particularly in years 1 and 2 of the forecast period. This was because there was a significant increase in work planned compared to previous delivery, contractors had not yet been awarded most projects, and recent flooding events in the region were likely to further affect contractor availability.
- 5.35 If West Coast Regional Council were unable to deliver on the planned projects, it could affect the intended levels of service and the community.

Uncertainty over asset condition and performance information used to inform renewals forecasts

- 5.36 When auditing the underlying information that informed the consultation documents, our auditors consider whether councils have sufficient information about their assets to inform their forecasts.
- 5.37 In every asset network, there are "critical assets" that will need to be managed to ensure that they do not fail. In a water network, a critical asset would be the water treatment plant. In a roading network, a critical asset might be the main bridges needed for transport through a district. The flood protection works protecting other critical infrastructure (like a hospital or an airport) could be another example of critical assets.
- 5.38 To manage these critical assets well, good asset information is needed. This information includes the condition of the assets and their current performance.

16 This was not the only qualification that Westcoast Regional Council received (see the Appendix).

For less critical assets, good asset condition and performance information is not needed to the same level. This is primarily because there is a less adverse impact if the asset fails unexpectedly.

- 5.39 After the audit of the 2018-28 long-term plans, we recommended that councils increase their knowledge about the condition and performance of critical assets to better inform decisions about when to invest in asset renewals.¹⁷
- 5.40 Much of New Zealand's infrastructure was built in the 1950s and 1960s. This infrastructure is now reaching – or fast approaching – the end of its useful life. This increases the risk that assets will fail. Poor management of assets has real costs to communities. Poor investment decisions can mean using resources that could have funded other priorities or result in unnecessary expenditure if assets are replaced before they need to be.
- 5.41 In the 2021-31 long-term plans and their associated consultation documents, we expected councils to have improved their asset information. We communicated with councils about what we expected, most recently in a bulletin to elected members about good asset management.
- 5.42 Our auditors assessed whether councils had enough condition and performance information about their assets. In the absence of this information, our auditors considered whether there was other information that provided assurance that the council had forecast renewals at an appropriate level. What is appropriate depends on how sophisticated a council's asset networks are. This included a council having:
- suitable, reliable age, and remaining useful life information for its assets;
 - information about the rate of failure of its assets (that is, what is the actual performance information showing); and
 - forecast to adequately reinvest in their affected asset class.

The modified audit opinions we issued

- 5.43 We issued two qualified audit opinions (Wellington City Council and Gore District Council) for the information that councils held in respect of asset condition and performance.
- 5.44 Wellington City Council received a qualification because it did not use condition information to inform the renewals of its three waters assets. Given the ageing three waters assets and several high-profile asset failures, we considered the Council's approach of using asset age alone to inform its asset renewals was unreasonable. We considered that the Council's approach could lead to further asset failure, resulting in reduced levels of service and greater than forecast costs.

- 5.45 Gore District Council received a qualification because there was a lack of condition and age information for its water supply and wastewater assets. The Council was also unable to demonstrate the availability of other information. Unfortunately, the Council had lost its asset information in a fire in the 1950s and it could not be reproduced.
- 5.46 Waitaki District Council also received a qualification related to the extent of disclosures made in its consultation document about the management of its assets. In particular, the Council did not explain its approach to maintaining and renewing its three waters assets. A council is required by the Act to disclose the matters of public interest relating to the proposed content of the infrastructure strategy.
- 5.47 We also included 12 emphasis of matter paragraphs in our audit reports because there was a high degree of uncertainty about how these councils had determined their asset investment. These councils based their forecasting of investment needs for assets or critical asset classes primarily on age information. In our view, not using condition information in forecasting asset renewals means that there is a higher degree of uncertainty on how a council has determined its investment needs. This includes the risk that unbudgeted expenditure might be required to pay for renewals required earlier than planned. This could result in an increased risk of disruption in services.

Uncertainty over funding and financing assumptions

- 5.48 We issued six qualified audit opinions that related to funding assumptions made by:
- Ashburton District Council;
 - Buller District Council;
 - Hauraki District Council;
 - Horowhenua District Council;
 - Kawerau District Council; and
 - Wellington City Council.
- 5.49 These councils had assumed that a significant portion of funding would be provided from an external source. When significant funding assumptions like that are made, we expect the assumption to be adequately supported – for example, by having an agreement or contract already in place or taking active steps to secure funding. We would also consider a council’s ability to secure similar funding in the past.
- 5.50 Additionally, if a council is assuming it will receive funding from central government, we expected that there were relevant appropriate funds available. For example, we considered councils’ forecasting funding from Waka Kotahi NZ Transport Agency for road maintenance as being reasonable because this is a

known source of local government funding. When there are no such known funds, we considered such an assumption to be unreasonable.

- 5.51 For these six councils, we determined that the funding assumptions they made were unreasonable because they were unable to provide our auditors with the appropriate level of evidence.
- 5.52 We also included 15 emphasis of matter paragraphs in our audit reports relating to funding and financing assumptions.
- 5.53 For 10 of these emphasis of matter paragraphs, councils had made assumptions that external funding would be provided but it had not yet been sought or agreements were not yet in place. However, our auditors were able to ascertain that those councils had a good history of being able to obtain philanthropic or grant funding, those sources were available, and they had clearly disclosed the risk of not achieving funding and what the alternative options would be.
- 5.54 Auckland Council's audit report for its consultation document included an emphasis of matter paragraph drawing attention to specific assumptions in its financial forecasts that were subject to higher levels of uncertainty. For example, assumptions about Covid-19 border controls remaining to 2022, government capital subsidies for Auckland Transport remaining at the same rate as previously agreed, and asset recycling targets being met. We noted that changes in any of the assumptions could require the Council to reduce its capital expenditure programme or could result in reduced levels of service.
- 5.55 For Hamilton City Council and Rangitikei District Council, emphasis of matter paragraphs were included in our audit reports to draw attention to those councils' proposed cost savings plans. Both councils had plans to pursue operational efficiencies resulting in significant savings. The consultation documents detailed that if the councils were unable to achieve the planned savings, then future debt levels, levels of service, and/or ultimately rates rises could be affected.
- 5.56 Our audit report on Queenstown Lakes District Council's consultation document included an emphasis of matter paragraph because the Council had forecast the introduction of a visitors levy from 2024 to fund visitor-related infrastructure. The preparation of the required legislation to collect such a levy was put on hold due to Covid-19 and uncertainty about when the borders will open and international tourism will return. The consultation document set out that if the proposed visitor levy is unavailable from 2024, the Council will not be able to collect this revenue and its related capital work programme would be significantly affected or rates would need to increase.
- 5.57 For the details of each non-standard audit report issued see the Appendix.

Appendix

Summary of the non-standard audit reports issued

In summarising the non-standard audit reports, we have not repeated the wording of the emphasis of matter paragraph included in 67 audit reports relating to the uncertainty of the three waters reforms. This emphasis of matter paragraph is as follows:

Without modifying our opinion, we ... [outline] the Government's intention to make three waters reform decisions during 2021. The effect that the reforms may have on three waters services provided is currently uncertain because no decisions have been made. The consultation document was prepared as if these services will continue to be provided by the Council, but future decisions may result in significant changes, which would affect the information on which the consultation document has been based.

Modified audit opinion – adverse opinion

Palmerston North City Council

The underlying information and assumptions in the consultation document are not reasonable because they are inconsistent with the Council's financial strategy. The financial strategy caps the Council's debt at 200% of revenue. However, the forecasts in the consultation document show that the Council plans to exceed its debt cap after year four of the long-term plan (and is forecast to exceed the debt limits set by the New Zealand Local Government Funding Agency after year five). The Council notes that it is highly unlikely that lenders would be prepared to lend the amounts included in the underlying information.

This means that the Council does not have a credible plan for funding all its activities and planned projects. Therefore, the Council needs to consider reducing levels of service, removing or deferring planned projects, and increasing rates further. None of these matters are addressed in the consultation document.

Because of the unreasonable underlying information and assumptions and the inconsistencies with the Council's financial strategy, the consultation document cannot provide an effective basis for public consultation.

Modified audit opinion – qualified opinion

Ashburton District Council

Qualified opinion

Assumption related to the funding of a second urban bridge between Ashburton and Tinwald

The Council plans to spend \$37 million to build a second urban bridge to connect Ashburton and Tinwald. The Council assumes that central government will fund \$10.7 million of the project. We consider this assumption unreasonable because the Government has not made any funding available.

If the funding is not received, the Council's current view is it will not go ahead with the project. The impact on the underlying information if the project does not go ahead would be a decrease in debt and rates of \$7.5 million and \$400,000, respectively.

Emphasis of matter – Uncertainty over three waters reforms

Buller District Council

Qualified opinion

Westport port and the Kawatiri dredge

The Council has assumed that \$25.2 million in revenue will be received from a large commercial operator, throughout the 10 years of the plan. This revenue is needed for dredging the Westport harbour, which will be required for the operator to ship out of the port. We consider this assumption is unreasonable because there is no contract in place with the potential operator to secure this revenue.

If the large commercial operation does not proceed, the Council will not receive this revenue and the Council has indicated that no additional costs will be incurred to dredge the Westport harbour. However, fixed operational costs will continue and these would need to be funded through other port revenues or by some other means.

Karamea special purpose road

The Karamea highway is currently 100% funded by Waka Kotahi NZ Transport Agency (Waka Kotahi) because of its special purpose road status. The Council has assumed that Waka Kotahi will continue to fund 100% of the Karamea highway for the 10 years of the plan. We consider this assumption is unreasonable because Waka Kotahi has advised that the status of the highway will change from a special purpose road to a local road, resulting in Waka Kotahi funding only 72% from the start of 2024/25.

If 100% of funding is not received beyond 2023/24, the levels of service could reduce due to the Council not being able to afford the maintenance of the road. It could also have a major impact on rates.

Punakaiki water supply scheme

The Council plans to spend \$6.7 million to upgrade and extend its Punakaiki water supply scheme during 2024/25 and 2025/26. In the information underlying the consultation document, the Council has assumed that the Government will fully fund the planned upgrade. We consider this assumption is unreasonable because the Government has not made any funding available.

If the upgrade proceeds and the Government funding is not received, debt funding would be required, resulting in a large rates impact for each of the 93 households in Punakaiki. If the upgrade does not proceed, the levels of service will not improve.

Emphasis of matter – Uncertainty over three waters reforms

Gore District Council

Qualified opinion

Lack of condition and age information for water supply and wastewater assets

The Council does not have sufficient reliable information about the condition of the assets in those networks, many of which are nearing the end of their useful lives. Further, the exact age of assets that are more than 60 years old is not known due to a fire that destroyed the underlying infrastructure records in the 1950s. The Council has used historical failure rates of its assets to determine the investment required to upgrade these networks.

We consider it unreasonable for the Council to use only historical failure rates to develop forecasts for upgrading its networks. Planning on this basis increases the risk of asset failures, which could result in reduced levels of service.

Emphasis of matter – Uncertainty over three waters reforms

Hauraki District Council

Qualified opinion

Assumption related to the upgrade of wastewater treatment plants

The Council plans to spend \$41 million to upgrade its wastewater treatment plants within the next 10 years. In the information underlying the consultation document, the Council assumes that the Government will fund 50% of the upgrades. We consider this assumption unreasonable because the Government has not made any funding available.

If this assumption was removed, the impact on the underlying information, over the next 10 years, would be an increase of debt to \$86 million and an increase of targeted wastewater rates by another 39% to a total of \$1,040 per household.

Emphasis of matter – *Uncertainty over three waters reforms*

Horowhenua District Council

Qualified opinion

Assumption related to funding of Tara-Ika Infrastructure

The Council has identified Tara-Ika (a 420-hectare block of land to the east of Levin) as a key growth area for the district. The Council assumes that, to accelerate the development of Tara-Ika, key public infrastructure will be delivered and funded externally and will not be funded by Council debt. We consider this assumption unreasonable because, to date, external funding has not been secured.

If the Council is unsuccessful in securing external funding, the impact on the underlying information would be an increase in debt of \$27 million and delaying \$19 million of capital upgrades.

Emphasis of matters

Uncertainty over the delivery of the capital programme

The Council has budgeted to deliver a capital programme of approximately \$46 million per year over the 20-year plan. Although the Council has put a number of initiatives in place to deliver on its capital programme, there are risk factors, including resource availability, that could result in increased pressure on existing assets and delayed development of future growth areas.

Infrastructure assets condition information

The Council's decision about when to replace ageing assets is informed by continual assessment of asset condition and monitoring of reactive maintenance costs. The renewal of assets is, however, budgeted for based on the age of the assets. There is therefore a risk that unbudgeted expenditure might be required to pay for renewals that are needed earlier than planned, and this could result in an increased risk of disruption in services.

Uncertainty over three waters reforms

Hurunui District Council

Qualified opinion

Improvements to the “Route 70 – Inland Road” and the consequences of those improvements have not been included in the underlying information

Waka Kotahi NZ Transport Agency (Waka Kotahi) obtained the power to operate the “Route 70 – Inland Road” after the 2016 Kaikōura Earthquake. Waka Kotahi was responsible for maintaining, repairing, and upgrading the road until 24 December 2020, when this responsibility was formally transferred back to the Council for its share of the road.

The Council has not recognised its share in the value of Waka Kotahi’s improvements to the road because the Council did not have this information available when preparing the consultation document. As a result, the Council has not adjusted its forecast maintenance, renewals, and depreciation for the road in its underlying information. We are unable to determine the possible effect of these matters on the underlying information because it is impracticable to do so.

Emphasis of matter – *Uncertainty over three waters reforms*

Kawerau District Council

Qualified opinion

Assumption related to external funding for renewals of the stormwater pipe network

The Council plans to renew 15.4 kilometres of stormwater pipe network. In the information underlying the consultation document, the Council assumes that 75% of the costs to renew the stormwater pipe network over the next 10 years will be funded by Waka Kotahi NZ Transport Agency (Waka Kotahi). We consider this assumption unreasonable because although Waka Kotahi has previously funded 75% of the costs for stormwater asset maintenance, Waka Kotahi is not clearly responsible for funding 75% of the renewal of the Council’s stormwater pipe network.

If this assumption was removed, the impact on the underlying information would be a need to obtain other funding over the next 10 years, which might include an increase in debt.

Emphasis of matters

Uncertainty over the three waters renewals forecasts

The Council’s forecasting for three waters asset renewals is based on the assets’ minimum lifespan. We note that using age-based information, rather than condition information, increases the risk that assets requiring renewal are not replaced at the best time. The Council plans to carry out an asset evaluation programme and to use this information to determine the actual renewals required.

Uncertainty over three waters reforms

Waitaki District Council

Qualified opinion

Inadequate explanation of the matters of public interest relating to the proposed content of the infrastructure strategy

Section 93C(2)(c)(ii) of the Act requires the Council to describe in its consultation document matters of public interest relating to the proposed content of the infrastructure strategy. The disclosures about the Council's infrastructure strategy do not adequately describe the content of the strategy and asset management plans. In particular, the Council does not explain its approach to maintaining and renewing its three waters assets. Consequently, the infrastructure strategy disclosures in the consultation document do not provide an effective basis for public participation in the Council's decisions about the proposed content of its 2021-31 long-term plan.

Emphasis of matters

Uncertainty over external funding of capital projects

The Council has assumed that a significant percentage of the funding to build an indoor sports and events centre will be obtained externally. The external funding contributions are currently uncertain because funding agreements are not in place. There is a risk that the level of funding through rates could be impacted, but the Council indicates that a decision to build the facility will not be made until there is certainty of what can be delivered within funding constraints.

Uncertainty over three waters infrastructure assets forecast

The Council's forecasting for three waters infrastructure asset renewals is based on age and asset failure rates. Planning on this basis increases the risk of disruption in services.

Uncertainty over three waters reforms

Wellington City Council

Qualified opinion

Infrastructure asset condition information

The Council has challenges with its ageing three waters networks. Many of the assets in the networks are old, and a significant percentage have already passed the end of their expected useful life. The Council has also experienced several high-profile pipe failures that have affected levels of service. The Council does not use information about the condition of its three waters assets to cost and direct its investment in its three waters networks. Rather, the renewal of assets has been forecast based on the age of the assets, capped by what the Council considers is affordable.

Given the age of the three waters networks and recent asset failures, we consider it is unreasonable for the Council to use age alone as the basis to support and direct the renewal of its three waters infrastructure. This could result in more asset failures during the 10-year period of the long-term plan, reduced levels of service, and greater costs than forecast.

Assumption related to the funding of City Housing

The Council has an obligation to provide social housing and therefore needs to plan to periodically upgrade its housing portfolio. This obligation comes from the Deed of Grant with Central Government effective from 2007. The Council outlines that it has calculated the expected cost for a full capital upgrade and maintenance of its social housing to be \$446 million over the 10-year period of the long-term plan. The Council also notes that it is working on options for how this will be funded. However, only \$42.8 million has been included in the Council's budget. The Council has not included the remaining estimated costs of \$403.2 million, or information about how this will be funded, in the information and assumptions underlying its consultation document.

Given the Council's obligation under the Deed of Grant, it is unreasonable to omit these costs and associated funding for social housing from its underlying information. In our view, the underlying information should include the remaining estimated costs of \$403.2 million and the Council should address how these costs will be funded.

Emphasis of matters

Uncertainty over the delivery of the three waters capital programme

The Council has budgeted to deliver a three waters capital programme of approximately \$678 million over the period of the 10-year plan. The Council, through its service provider (Wellington Water Limited), has put a number of initiatives in place to deliver on its capital programme. However, there is a risk about the delivery of all the work planned due to other large infrastructure projects within the region and nationally, which are competing for limited resources. This, coupled with the uncertainty of Covid-19, could result in the Council failing to deliver its capital programme in future years, which could affect service levels.

Uncertainty over funding of wastewater treatment

The Council outlines its plan and preferred option for the investment in the wastewater treatment plant at Moa Point. The Council has assumed that external funding contributions will be obtained through use of the Infrastructure Funding and Financing Act 2020 to invest in the existing wastewater treatment plant site. The external funding contributions are currently uncertain because funding agreements are not yet in place. If the level of external funding is not achieved there could be an increase in debt of \$147 million to \$208 million and a corresponding increase in capital expenditure, dependent on the outcome of the options provided and consulted on by the Council. This could also result in delays with the implementation of other planned improvements to levels of service.

Uncertainty over three waters reforms

West Coast Regional Council

Qualified opinion

Insufficient evidence to support the capital spending assumption

The Council plans to spend \$30.9 million during the first two years of the plan on its flood and erosion protection assets. In the underlying information, the Council has assumed that it will have the required resources, contracted services, and resource consents in place to complete the projects on time. We were unable to obtain appropriate evidence to support these assumptions. As a result, we were unable to determine if any adjustments should have been made to the underlying information, including the funding for these projects.

Incorrect accounting for forecast costs of aerial photography

The Council will be carrying out an aerial surveying project during the first three years of the plan. The Council is planning to account for the estimated costs of the project of \$2.6 million as capital expenditure, resulting in an intangible asset. In our view, the costs should be accounted for as operating expenditure, as the aerial mapping data is not controlled by the Council as it will be freely available to the public. The forecast costs will therefore not meet the criteria to be recognised as an intangible asset. As a result, the underlying information is misstated as it spreads the forecast costs of the aerial photography over 10 years after completion of the project, and not when the costs are expected to be incurred.

Emphasis of matters

Breach of statutory deadline

The Council failed to adopt the consultation document in time for the plan to be adopted before the start of the first year to which it relates. The late adoption of the plan will breach section 93(3) of the Local Government Act 2002. The Council has outlined that there will be potential implications on the delivery of projects and the timing of the assessments of Council's rates and invoices for annual charges.

Extent of damage from the significant flooding event during July 2021 is unknown

A significant flooding event occurred during July 2021 in the West Coast region. The Council has not made amendments to the forecasts contained in the underlying information. This is because the extent of the damage to the Council's flood protection infrastructure assets are currently unknown and have yet to be assessed by the Council.

Unmodified audit opinions with “emphasis of matter” paragraphs

Auckland Council

Uncertainty over forecast funding

The Council outlines its key assumptions in respect of its financial forecasts. We draw specific attention to the following assumptions, which are subject to higher levels of uncertainty and could affect the Council’s ability to fund its planned capital expenditure.

- Covid-19 border controls will remain until December 2022 with no further lockdowns.
- The Government’s capital subsidies for Auckland Transport will be confirmed through the Auckland Transport Alignment Project at the same rate as previously agreed between the Crown and the Council.
- The asset recycling target of \$70 million per annum for the first three years of the plan and a \$90 million permanent savings target (to be achieved in 2022 and maintained in subsequent years) will be met.

Changes in these assumptions could require the Council to reduce its planned capital expenditure and may result in a reduction in levels of service, without further increases in funding, either through rates or debt.

Uncertainty over the ownership of City Rail Link

The City Rail Link project is expected to be completed in late 2024. An agreement has not yet been reached between the Crown and the Council over the future ownership of the assets that comprise the City Rail Link. The Council has assumed that it will need to fund \$408 million of the future running costs over the 10-year period of the long-term plan and depreciation for 50% of the assets. Changes in this assumption will affect budgets for the future running costs and depreciation related to these assets, as disclosed in the underlying information to the consultation document.

Uncertainty over three waters reforms

Chatham Islands Council

Uncertainty over the ability to renew infrastructure

The Council relies on grants from various Government agencies to fund its capital expenditure on asset renewals, and therefore projects are delayed until the funds are confirmed. Because government agency funding has not been secured, the Council has not included a renewals programme with associated funding in its financial forecast. It is expected that asset renewals will need to be made during the next 10 years. There is a risk that critical assets might fail, which could result in a need for the Council to divert funds from other activities, or to borrow funds in the short term.

Uncertainty over three waters reforms

Clutha District Council

Uncertainty over the delivery of the capital programme

The Council is proposing a significant increase in infrastructure investment, particularly in the area of three waters. Although the Council has taken steps to support the delivery of the infrastructure programme, there is a risk that the Council might not be able to meet the planned time frames – for example, due to challenges in obtaining contractors. This could result in outages and failures occurring more regularly, affecting levels of service. The Council’s approach to mitigate this risk is to be flexible and adaptive to changes while ensuring that compulsory work is done, especially towards improving wastewater discharges and ensuring that there is safer drinking water.

Uncertainty over three waters reforms

Far North District Council

Water supply and wastewater asset condition and performance information

Although the Council continues to update its asset information, carry out condition assessments, and monitor asset performance, the asset data used to support its infrastructure replacement and renewal programme is not sufficiently complete. There is therefore a risk that the Council has not correctly identified some of its critical water supply and wastewater assets that might need replacing during the period of the long-term plan. The Council has set out how it has reduced this risk and how it proposes to spend more in the future on understanding the state of its assets.

Uncertainty over three waters reforms

Greater Wellington Regional Council

Uncertainty over the electrification of the bus and rail networks

The Regional Council plans to electrify its bus and rail networks. In the information underlying the consultation document, the Regional Council assumes that the Government will provide a significant level of funding. If the Regional Council does not receive the assumed government funding, its rail programme affordability will be at risk and it will need to significantly revise its plans.

Uncertainty over the delivery of the capital programme

The Regional Council is proposing a significant increase in its capital expenditure programme compared to its previous long-term plan. While the Regional Council has taken steps to manage its risk to delivering the programme, there is a level of uncertainty around the timing of delivery of the programme, due to constraints like contractor and material availability. If the Regional Council is not able to deliver the capital programme, it has the potential to affect the level of service provided, the ability to meet the demands of a growing region, and the ability of the Regional Council to reduce its carbon footprint.

Uncertainty over three waters reforms

Hamilton City Council

Cost savings

The Council expects to achieve a cost saving of \$106 million over the next 10 years.

If these savings are not realised, the Council might need to rely on debt to achieve its planned expenditure. To remain within its debt-to-revenue limits, the Council might also need to increase rates.

Infrastructure asset condition information

Although the Council continues to update its asset information, the asset data used to support its planned infrastructure assets renewal programme is not complete. There is therefore a risk that some assets, that might need replacing, have not been identified. The Council sets out how it reduces this risk and also proposes to spend more on understanding its assets in its long-term plan.

Uncertainty over three waters reforms

Hawke's Bay Regional Council

Uncertainty over the delivery of the capital programme

We draw attention to a disclosure that outlines that the Council is proposing total capital expenditure of \$153 million over the next 10 years. Although the Council has taken steps to mitigate the risk of not delivering aspects of the proposed capital expenditure, there is an inherent risk that the Council will not be able to deliver on the programme, particularly when it has increased substantially from previous years. The Council notes that there is pressure on the contracting market, which might result in challenges for the Council in procuring services on time and to budget. If a project is not able to proceed as planned, the Council will prioritise its renewal work and critically review the programme to enable deferral.

Hutt City Council

Uncertainty over the three waters forecasts

The Council's forecasting for its three waters assets is based on age. Using only aged-based information increases the level of uncertainty in the timing and amounts of these forecasts. The Council's forecasts include investments in understanding the condition of its underground assets, which will reduce this uncertainty.

Uncertainty over the delivery of the capital programme

The Council is proposing a significant increase in its capital programme by doubling its spend compared to the previous long-term plan. Although the Council has put a number of initiatives in place, there is an inherent level of uncertainty and risk that the Council might not be able to deliver on the programme, especially when it has increased substantially. The Council notes the potential impacts of not achieving the capital programme, such as not meeting planned levels of service, or greater costs in the long term.

Uncertainty over three waters reforms

Invercargill City Council

Uncertainty over external funding of capital projects

The Council's assumption is that external funding contributions will be obtained to build an urban play space, re-open and refurbish the Southland Museum and Art Gallery, and improve Rugby Park over the next 10 years. The external funding contributions are currently uncertain because funding agreements are not in place. If the level of external funding is not achieved and where significant ratepayer funding is required, the Council will consult with the community on contributing more ratepayer funding or whether to explore other options.

Uncertainty over the delivery of the capital programme

The Council is proposing an ambitious capital works programme. While the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to the significant constraints in the construction market and the dependence on external funding for the larger projects, as highlighted in the above paragraph. If the Council is unable to deliver on a planned project, it could result in a decline in levels of service along with possible asset failures.

Uncertainty over three waters reforms

Kāpiti Coast District Council

Uncertainty over the delivery of the capital works programme

The Council is proposing an ambitious capital expenditure work programme. Although the Council has put a number of initiatives in place to deliver its work programme, it recognises the challenging environment it is operating in, with pressures on the availability of materials and specialist contractors. If a project is affected by this, it could have implications for costs and associated funding, and for levels of service.

Uncertainty over three waters reforms

Mackenzie District Council

Breach of statutory deadline

The Council failed to adopt the consultation document in time for the plan to be adopted before the start of the first year to which it relates. This is a breach of section 93(3) of the Local Government Act 2002. The Council notes that there could be potential implications on the delivery of projects and the timing of the assessments of Council's rates and invoices for annual charges.

Uncertainty over the delivery of the capital programme

The Council outlines the key capital projects that the Council proposes to deliver over the next 10 years. Although the Council is taking steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme, due to resource availability. If the Council is unable to deliver on a planned project, it could affect levels of service.

Canterbury flooding event

The Council outlines the extent of damage to the Council's roading network that was caused by the significant flooding event in the Canterbury region during May 2021. The Council has assessed that it can complete the flood remediation work within existing budgets. This is because existing forecasts include allowances for weather-related events, and existing works are able to be reprioritised to address flooding damage. This approach increases the risk that assets requiring renewals or maintenance might be deferred, which could affect service levels.

Uncertainty over three waters renewals forecasts

The Council's forecasting for its three waters assets is based on age. Using only age-based information increases the risk that assets requiring renewal are not identified early and prioritised accordingly. Additionally, the Council has elected to defer a portion of renewals that are required from its age-based information for the replacement of Twizel wastewater reticulation.

Uncertainty over three waters reform

Napier City Council

Uncertainty over the delivery of the capital programme

The Council is proposing a \$825 million capital programme over the next 10 years, which is a 52% increase compared to the last 10-year plan. While the Council has taken steps to support the delivery of the capital programme, there is an inherent level of uncertainty and risk that the Council might not be able to deliver on its capital programme. If the Council is not able to deliver all of its capital programme, the Council will reorganise the capital programme to ensure that basic needs are met and will not progress with some projects to increase levels of service.

Uncertainty over three waters reforms

Ōpōtiki District Council

Uncertainty over the delivery of the capital programme

The Council is proposing a large capital programme, which includes spending close to \$50 million in the first three years of the long-term plan. Although the Council has taken steps to mitigate the risk to delivering its capital programme, there is a level of uncertainty around the timing of delivery of the capital programme due to the availability of consultants and contractors. If the capital programme is affected by this, it could result in the planned work being moved to a later date, a loss of government funding for some projects, or a decline in levels of service, such as possible asset failures that disrupt customers.

Uncertainty over three waters reforms

Porirua City Council

Uncertainty over the three waters forecasts

The Council's forecasting for its three waters assets is based on age. Using only age-based information means there is an increased degree of uncertainty on the level of spending necessary and on which assets. Wellington Water Limited will work on better understanding asset condition, which will improve the reliability of future investment needs.

Uncertainty over the delivery of the capital programme

The Council is proposing to significantly increase its investment in three waters and transport infrastructure over the next 30 years. While the Council has put a number of initiatives in place, there is uncertainty over Council's ability to deliver infrastructure projects within the agreed time frames. The increased demand for skilled construction workers and materials could create delivery difficulties. If changes are required, the Council will prioritise the upgrading of critical infrastructure to maintain levels of service and avoid network failure.

Uncertainty over three waters reforms

Queenstown-Lakes District Council

Uncertainty related to the proposed 2024 visitor levy

The proposed introduction of a visitor levy from 2024 to fund visitor-related infrastructure, and the preparation of the necessary legislation, was put on hold due to Covid-19 and uncertainty about when international tourism will return. If the visitor levy is not available from 2024, the related capital programme will be significantly affected or rates will increase.

Assumption regarding completion of planned capital works programme

The Council is proposing an ambitious capital expenditure work programme. Although the Council has put a number of initiatives in place to deliver its work programme, it recognises the challenging environment it is operating in, with pressures on the availability of materials and specialist contractors. The Council also intends to review and re-prioritise other work if it is not able to deliver projects to the proposed time frames.

Uncertainty over three waters reforms

Rangitikei District Council

Uncertainty over three waters forecasts

The Council's forecasting for its three waters assets is based on age. Using only age-based information for the next three years, until the Council's asset management strategy work is completed, creates uncertainty over the reliability of future investment needs and decisions. The Council's forecasts include investment in understanding the condition of its underground assets, which will reduce this uncertainty.

Uncertainty over the delivery of the capital works programme

The Council plans capital expenditure of \$227 million over the next 10 years. Although the Council has taken steps to complete its capital works programme, there remains an inherent risk that the Council will not be able to deliver the programme, which includes an increased demand for skilled construction workers and materials. If the Council is not able to deliver its capital programme, these delays could potentially result in increased costs or asset failure, risking the continuity and delivery of services.

Cost savings

The Council is pursuing operational efficiencies and has assumed a total cost saving of \$8 million by reducing the operational budget over the next 10 years. To the extent that the Council does not achieve the planned savings there could be an impact on future debt levels, service levels, and/or rate rises.

Uncertainty over three waters reforms

Rotorua Lakes Council

Uncertainty over external funding of capital projects

The Council makes an assumption that external funding contributions will be obtained for redeveloping the Aquatic Centre, refurbishing the Museum, and upgrading the Westbrook Sports Precinct. The Council requires \$37.5 million in external funding for these projects, which is currently uncertain because funding has not yet been sought. If the level of external funding is not achieved, the Council will consider whether to scale back on the projects, delay them, or increase its funding commitments.

Uncertainty over three waters reforms

Ruapehu District Council

Uncertainty over the delivery of the capital programme

There is a significant increase (64.1%) in the Council's 2021/22 budgeted capital expenditure. Although the Council has put a number of initiatives in place to deliver its planned capital programme, there are unknown uncertainties beyond its control, such as demand and pressures on the contractor market, availability of raw materials, and the potential impact of Covid-19 on the supply chain. If a project is affected, levels of service would not improve as planned and there could be some risk of asset failures.

Uncertainty over three waters reforms

South Taranaki District Council

Uncertainty over the delivery of the capital works programme

The Council outlined its proposed capital work programme. Although the Council has put a number of initiatives in place to deliver its work programme, it recognises that completing all the planned capital work is a big challenge. If the Council is not able to deliver an aspect of the planned work, the Council will re-prioritise its programme to continue to meet existing levels of service.

Uncertainty over three waters reforms

South Wairarapa District Council

Uncertainty over Featherston wastewater treatment plant

The Council is currently operating the Featherston wastewater treatment plant under an extended resource consent while it is working to identify the best long-term solution. The Council has allocated \$16 million in the first five years of the long-term plan to provide treatment improvements to the pipe network and current treatment plant, and to progress and submit a new consent, and included nothing in its forecasts beyond the first five years. A long-term solution will cost significantly more than the \$16 million allocated in the long-term plan. The Council plans to consult further with the community once it knows the costs of the long-term solution as this might have a significant impact on the Council's proposed budgets and levels of service.

Uncertainty over the three waters forecasts

The Council's forecasting for its three waters assets is based on age. Because it is not based on condition information, there is a higher degree of uncertainty about how the Council has prioritised its investment needs. Wellington Water Limited is commencing a programme of work to fully understand the condition of all assets, which will increase certainty of future investment needs.

Uncertainty over the delivery of the capital programme

The Council is proposing an ambitious capital programme compared to its previous long-term plan. Although the Council has taken steps to mitigate its risk, there is an inherent level of risk that the Council will not be able to deliver on the programme, particularly due to the substantial increase in the programme. The potential impacts of not achieving the capital programme are not meeting planned levels of service, or increased costs in the long term.

Uncertainty over three waters reforms

Tasman District Council

Uncertainty over the Waimea Community Dam construction costs

The Council outlines the revised cost estimate range to complete the Waimea Community Dam. The Council has estimated it would cost \$158.4 million to complete the dam and this cost has been included in the Council's 10-year plan. There are key project risks with the cost estimate, including Covid-19 related delays and the scale of work required on unexposed geological features. As the dam is approximately 50% complete and most of the remaining work is above ground level, the likelihood of geological risks are reduced.

The Council intends to fund an additional \$25.2 million of the cost to complete the dam, and describes the impact that this could have on debt and rates through different funding options.

Uncertainty over three waters reforms

Taupō District Council

Uncertainty over the delivery of the capital programme

There is a significant increase (59%) in the Council's capital expenditure compared to their 2020/21 budget. Although the Council has invested in programmes and training to improve the deliverability of its capital programme, there is a high level of uncertainty that the consultant and contractor market will be able to deliver on the planned project timelines. If a project is affected by this, it could result in a decline in levels of service along with possible asset failures.

Uncertainty over three waters reforms

Tauranga City Council

Uncertainty over the delivery of the capital programme

The Council is proposing a capital programme that exceeds \$4.57 billion over the 10 years of the long-term plan. While the Council has taken steps to deliver its planned capital programme, there is a high risk that projects could be delayed if suppliers cannot be sourced. To mitigate the impact that this might have on levels of service, the Council plans to prioritise renewals projects.

Uncertainty over three waters reforms

Upper Hutt District Council

Uncertainty over the three waters forecasts

The Council's forecasting for three waters assets is based on age. Using only aged-based information means that there is a higher degree of uncertainty on how the Council has prioritised its investment needs. Wellington Water Limited will work on better understanding asset condition, which will improve the reliability of future investment needs.

Uncertainty over the delivery of the capital programme

The Council is proposing an ambitious capital programme compared to the previous long-term plan. Although the Council has put a number of initiatives in place, there is an inherent level of risk that the Council will not be able to deliver on the programme, especially when it has increased substantially. The Council notes, for example, that capacity in the contractor market could create delivery difficulties, and it will prioritise upgrading critical infrastructure and maintaining levels of service.

Uncertainty over three waters reforms

Waikato District Council

Uncertainty over the delivery of the capital programme

The Council is proposing a significant increase in its budgeted capital programme, with capital expenditure forecast to increase by 102% for 2021/22 compared to 2020/21. Capital expenditure is forecast to be maintained at that increased level for the duration of the long-term plan. Although the Council has put a number of initiatives in place to deliver its planned capital programme, there are many factors beyond its control, such as the state of the national economy, the impact of Covid-19, and the capacity of the market to deliver what is needed. If a project is affected by these factors, levels of service might not improve as quickly as planned and there could be increased risk of asset failures.

Uncertainty over three waters reforms

Waikato Regional Council

Uncertainty over continued funding of Te Huia

The Council is launching a start-up passenger rail service (Te Huia) in April 2021. The Council assumes that the Government will continue its funding after the five-year service start-up period, over the life of the long-term plan. The Council also assumes that additional funding from Government will be provided to support the proposed extension of the service's operation in 2023/24. If the start-up funding is not continued or the additional funding for the extended services is not received, the Council would need to seek alternative funding which may result in changes being made to the rail service, including not proceeding with the proposed service improvements.

Westland District Council

Uncertainty over the delivery of the capital programme

The Council is proposing a capital programme of \$109 million over the next 10 years, with significant planned spending during the first two years. Although the Council has taken steps to deliver its planned capital programme, there is uncertainty over the delivery of the programme due to the availability of contractors and external funding. If the Council is unable to deliver on a planned project, it could affect intended levels of service.

Uncertainty over the three waters renewals forecasts

The Council's forecasting for three waters assets is largely based on age. Using age-based information, rather than condition information, increases the risk that assets requiring renewal are not identified early and prioritised accordingly. The Council started a programme to understand the condition of its most critical assets, which will reduce this risk. The Council also plans to prioritise renewals of critical assets.

Uncertainty over three waters reforms

Whakatāne District Council

Uncertainty over external funding

The Council requires \$13.7 million in external funding for a new wastewater treatment plant in Matatā. The Council has assumed that \$6.7 million and \$7 million will be funded by the Ministry of Health and the Bay of Plenty Regional Council, respectively. The external funding contributions are currently uncertain because they have not yet been confirmed. If the Council is not able to obtain this level of funding, it will reconsider how to proceed with the project.

Uncertainty over three waters reforms

Whanganui District Council

Uncertainty over external funding of capital projects

The Council makes the assumption that external funding contributions will be obtained for upgrading the velodrome and extending the Davis library. The external funding contributions are currently uncertain because funding has not yet been sought. If the level of external funding is not achieved, the Council will reconsider proceeding with these projects.

Uncertainty over three waters reforms

Further, the following councils received an unmodified audit opinion with “emphasis of matter” paragraph in respect of the uncertainty over the three waters reforms only.

Carterton District Council	Ōtorohanga District Council
Central Hawke’s Bay District Council	Selwyn District Council
Central Otago District Council	South Waikato District Council
Christchurch City Council	Southland District Council
Dunedin City Council	Stratford District Council
Gisborne District Council	Tararua District Council
Grey District Council	Thames-Coromandel District Council
Hastings District Council	Timaru District Council
Kaikōura District Council	Waimakariri District Council
Kaipara District Council	Waimate District Council
Manawatū District Council	Waipā District Council
Marlborough District Council	Wairoa District Council
Masterton District Council	Waitomo District Council
Matamata-Piako District Council	Western Bay of Plenty District Council
Nelson City Council	Whangārei District Council
New Plymouth District Council	

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